DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

UNAUDITED

Chief Financial Officer
Annual Financial Statement
Fiscal Year 2000

D E F E N S E L O G I S T I C S A G E N C Y

Message from the Director

For nearly 40 years, the Defense Logistics Agency (DLA) has been working behind the scenes to provide best value logistics solutions to America's Armed Forces around the clock, around the world, in times of peace, national emergencies and war. During the past year, we continued to reduce infrastructure costs while increasing supply availability and customer satisfaction, and reducing on-hand inventory levels. We expanded use of public/private competition and commercial business practices to foster efficiencies in our supply, distribution, and reutilization and marketing operations. Despite the significant accomplishments we have achieved from these efforts, I determined that we cannot respond appropriately to the rapidly changing logistics requirements of the warfighter in the new millennium without significant new investments in computer technology and fundamental changes in our organizational structure, business practices, and human capital. During the year, we began the following major initiatives to allow us to adapt rapidly to meet the anticipated logistics requirements on the 21st century battlefield envisioned in the Department of Defense's (DoD) Joint Vision 2010.

- ❑ We implemented our DLA 21 reorganization plan to help transform DLA into a more agile logistics combat support agency that focuses on our core competencies. The new DLA 21 organization, which was incorporated into our FY 00 Strategic Plan, rests on five key pillars: Organizational Redesign, Business System Modernization, Strategic Sourcing, Customer Knowledge/Focus, and Workforce development.
- ❑ We have embarked on our Business System Modernization (BSM) strategy to replace our obsolete suite of mission critical automated systems with commercial-off-the-shelf enterprise resource planning software and advanced planning and scheduling systems. Converting to proven state-of-the-art commercial technology will not only provide us with the interoperable data environment needed to achieve the DoD Joint Vision 2010 concept of focused logistics, but will facilitate our efforts to re-engineer logistics processes to reflect best commercial practices. For additional information about the BSM effort, please visit our website at http://www.supply.dla.mil/bsm.htm.

- ❑ We hired a commercial accounting firm to help us improve internal management processes and thereby increase the creditability of DLA financial management processes. Our Audit Committee provides oversight over the audit process and provides increased accountability.

These financial statements show our performance against our fiscal year 2000 Performance Contract with the Defense Management Council. Our performance shows that we have made significant progress towards our vision of providing the right item, at the right place, and at the right price, every time in spite of the turmoil caused by our efforts to reduce cost and our outdated automated systems. I am firmly committed to continuous improvements in our financial reporting processes and to linking cost data to performance in a meaningful way.

HENRY T. GLISSON

Lieutenant General, USA

Director

Message from the Comptroller

When we look back on fiscal year 2000 several years from now, I believe that we will be able to say that it was the year that we began to "turn the corner" and put in place major reform initiatives that will vigorously transform our financial operations, processes, and systems.

Based on direction from the Department of Defense (DoD) Comptroller, in August 2000, we contracted with a commercial audit firm and began what I expect to be a long-term partnership arrangement that will allow the auditors to work toward a complete audit of our financial statements and related processes and controls. I am committed to overcoming all obstacles preventing us from receiving audit opinions on our financial statements as soon as possible.

As part of the Defense Logistics Agency's (DLA) reorganization under DLA 21, I've realigned my management team to put the best mix of talent and skills that I can to address the enormous challenges that lie ahead. To help make the business system modernization initiative a success, I've dedicated a team of financial experts to help ensure that the new system will furnish complete, accurate, timely, and reliable financial data continuously. The Chief Financial Office (CFO) Compliance team, which I created last year, continues to play a vital role in coordinating the multitude of on-going financial reform initiatives, communicating my commitment to financial reform, and in helping us to get through this difficult transformation period. This past April, I hired a new staff director to lead the team's efforts.

We have developed a compliance plan that describes the specific actions and milestones to correct deficiencies noted by auditors and the plan will be continuously updated to address new issues as they are identified. During the year, we continued to focus our efforts on improving inventory accuracy because of its materiality not only to our financial statements, but also to the DoD-wide statements. We revised our statistical sampling plan to improve our ability to measure inventory accuracy and have directed significant resources toward correcting long-standing problems that have resulted in the need for us to make a significant number of inventory adjustments. Additionally, we continued to work with the Defense Finance and Accounting Service (DFAS) to improve our financial processes and to coordinate with them on their efforts to improve the services they provide.

With the solid foundation for improvement that we have laid out this year, I believe that we will continue to make substantial progress toward achieving our goal of obtaining an audit opinion on our financial statements. In the interim, the present un-audited statements reflect the concerted efforts of DLA and DFAS personnel to improve financial reporting through the end of the fiscal year. As such, I believe them to be as fair and impartial in their representation of the financial condition of DLA as current systems and methods permit.

Linda J Furiga

LINDA FURIGA
Comptroller

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Introduction to the Defense Logistic Agency

The Defense Logistics Agency (DLA) is the combat support agency for the Department of Defense (DoD). The Under Secretary of Defense for Acquisition, Technology, and Logistics is the principal staff assistant for DLA. The Defense Logistics Agency is fundamental to the success of DoD corporate goals and the national security strategy by helping to shape the environment and enhance the readiness of the United States (U.S.) armed forces through focused logistics. We support DoD missions and objectives through our involvement in the full range of military operations, from our participation in a multi-national forces engaged in large-scale combat contingencies to humanitarian assistance efforts. Our overarching mission is to provide best value logistics solutions to meet the needs of America's armed forces around the clock and around the world, in times of peace, national emergency, and war. America's warfighters have never been more dependent on DLA than they are today for focused logistics support and they cannot effectively deploy for contingencies, emergencies or war without us. Our mission has evolved and grown to an extent that if our forces fight with it, wear it, eat it, or burn it as fuel, we probably buy it, warehouse and distribute it, and arrange for its reutilization or disposal after the customer no longer needs the materiel.

We provide the Military Departments and others with centralized management of the logistics information, energy, consumable spare parts, food, medical supplies, and clothing that they use to sustain operations. We are also responsible for receiving, issuing, and distributing most DoD wholesale materiel and we manage DoD programs to reutilize, transfer, donate or sell surplus and excess DoD materiel and to dispose of hazardous materiel and waste. As secondary missions, DLA manages DoD document automation and production services and the National Defense Stockpile.

Agency Strategic Goals

As we enter this new century, we expect to see a revolution in DoD business affairs, including significant advances in the technological sophistication, speed, and mobility of our armed forces. To keep pace with the anticipated changes, we developed our Fiscal Year (FY) 2000 Strategic Plan (http://www.dla.mil/about.asp) to provide a road map to our logistics transformation. To develop this comprehensive plan, which we call DLA-21, we considered feedback received from our workforce, the Military Departments, our stakeholders, and our suppliers. The plan supports the tenets of DoD Joint Vision 2010 pertaining to "focused logistics," as contained in the DoD Logistics Strategic Plan (http://www.acq.osd.mil/log/lsp/lsp.htm). Our strategic plan reflects the changes we anticipate in the logistics requirements on the 21st century battlefield. It outlines our goals to facilitate the transformation of DLA into a smaller, more agile, combat support agency.

Strategic Goals

- Consistently provide responsive, best-value supplies and services to our customers.
- Reduce costs—improve efficiency—increase effectiveness.
- Ensure our workforce is enabled to deliver and sustain world class performance.

The plan has five pillars or enablers: Customer Knowledge/Focus, Business Systems Modernization, Strategic Sourcing of materiel, Workforce Development, and Organizational Redesign.

Transforming DLA into a small, more agile, Logistic Combat Support Agency able to provide better, faster best value support to the DoD Joint Vision 2010 Warfighter.

Business Systems Modernization (BSM) requires Enterprise Resource Planning, replacing legacy systems with robust Commercial Off-the-Shelf (COTS), shifting to commercial practices, and acquiring new technology. The existing logistics systems within DLA, such as the Standard Automated Materiel Management System (SAMMS), need to follow a new blueprint to attain DLA strategic goals — one that incorporates new information technology, organizational structures, and proven commercial business practices. This new blueprint is DLA's BSM strategy, a plan which will enable DLA to achieve not only its long-range business objectives, but also support improved military readiness through better accessibility and increased velocity of business information — the DoD Joint Vision 2010 concept of Focused Logistics. The BSM's first focus is to replace DLA primary materiel management systems, SAMMS and the Defense Integrated Subsistence Management System (DISMS), with an expanded enterprise computing environment and COTS software packages. During the next several years, BSM will result in a new agency-wide computing architecture, thereby enabling DLA to re-engineer its logistics and related financial processes to reflect best commercial business practices. It will also contribute to improved military readiness by implementing a more interoperable, shared data environment.

Strategic sourcing of materiel requires shifting to commercial practices, prime vendor, virtual prime vendor, direct vendor delivery; best value sourcing, acquisition reform, strategic supplier alliances, supply chain solutions and corporate long term contract.

Customer knowledge/focus requires forward presence, partnership, on-site representatives, lead centers, virtual call center, tailored support, stock positioning and single point of contact.

Organizational redesign requires restructuring for logistics transformation, virtual enterprise, focus on supply chain management, information in a commodity, and business process driven.

Workforce development requires recruitment, retention, training; training for multi-skilled personnel; knowledge management and teaming.

The Defense Logistics Agency's core competencies, which are the unique combination of skills, processes, technologies and knowledge bases, are:

- ❑ Customer knowledge: Knowing and anticipating our customers' needs.
- ❑ Logistics information management: Applying information management technology to enhance logistics support to our customers.
- ❑ Integrated combat logistics solutions: Insuring best value solutions across the supply chain . . . from factory to foxhole.
- ❑ Rapid worldwide response: Responding to logistics needs on short notice.
- ❑ Single face to industry: Providing industry with consistency, continuity, and predictability.

Agency Strategic Objectives

Each of our three strategic goals provides a series of supporting strategic objectives, which serve as the foundation for our performance metrics. Our agency strategic objectives are as follows:

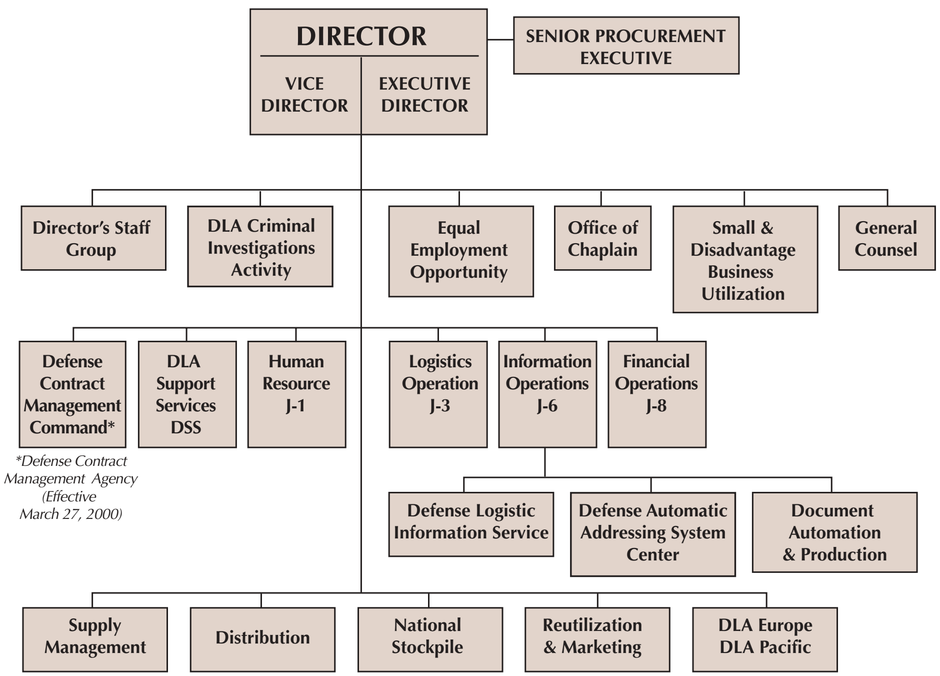
Goal 1. Consistently provide responsive, best value supplies and services to our customers.
Objective 1.1. Meet customer expectations of quality, timeliness, information, and performance. Objective 1.2. Team with our business partners to achieve customer results.
Goal 2. Reduce costs—improve efficiency—increase effectiveness.
Objective 2.1. Achieve performance and cost commitments. Objective 2.2. Serve as a catalyst for the revolution in business affairs and acquisition reform. Objective 2.3. Implement commercial business-based systems and practices. Objective 2.4. Achieve integrity and security of information and infrastructure.
Goal 3. Ensure our workforce is enabled to deliver and sustain world class performance.
Objective 3.1. Invest in the workforce to ensure we have the knowledge-based skills and tools to succeed. Objective 3.2. Implement a long-range strategy to sustain our workforce. Objective 3.3. Foster a positive environment.

The Defense Logistics Agency's core functional business operations performance plan contains outcome measures and performance targets, such as measures relating to inventory and infrastructure reduction, responsiveness, customer satisfaction, outsourcing, cost reduction and workforce development. Our performance contract with the Defense Management Council articulates the expectations for DLA performance during the fiscal year. Performance against the agreed upon metrics is reported annually to the Defense Management Council and budget and performance targets for the coming year are established accordingly. The DLA Performance Contract (http://www.hqcnet.hq.dla.mil/fo - performance measures) reflects the guiding principles of the DoD Logistics Strategic Plan and the DLA Strategic Plan. It also reflects DoD's and DLA's continuing implementation of the Government Performance and Results Act reflected in the FY00 Annual Report to the President and the Congress (http://www.defenselink.mil).

Organization

As part of our strategic planning process under DLA-21, we began a major organizational redesign effort to streamline and realign the DLA headquarters components. The reorganization will facilitate our conversion from a "holding company culture" to an enterprise business model, which will allow us to develop an improved set of corporate business processes and strategies. Organized, as a single, integrated business enterprise will best position us to focus on supply chain management, readiness, and contingency operations support and thereby ensure that the warfighter is never logistically unprepared.

Our new organizational structure is depicted below.



During FY00, DLA employed just over 38,000 personnel. The Defense Contract Management Command (DCMC) was established as the Defense Contract Management Agency (DCMA) effective March 27, 2000 and separated from DLA. All personnel and resources of the former DCMC transferred from DLA to DCMA effective October 1, 2000 (FY01). Without DCMC, DLA employed over 25,000 personnel in FY00.

Most DLA core functions are directed or supported by the following three primary operations.

- Logistics Operations (J-3) is responsible for logistics and acquisition policy, supply chain management, development and application of DLA readiness and customer support efforts, business modernization, and materiel disposition. Logistics Operations encompasses, materiel management, distribution and disposal. The Logistics operations mission is to provide focused logistics support to American's armed forces. The Defense Logistics Agency manages 90 percent of the DoD consumable weapons system's spare parts in addition to energy, food, medical supplies, clothing and textile goods, industrial and general supplies, market-ready commodities, and logistics services and information.
- Information Operations (J-6) is DLA's knowledge broker with responsibility for consolidating the Agency's information technology activities to enhance electronic commerce, logistics support systems, and document automation processes.
- Financial Operations (J-8) is the financial management process owner and responsible for streamlining DLA's financial and budget systems so that they serve as enablers of the Agency's logistics and information technology initiatives of the future.

The Defense-wide Working Capital Fund (DWCF) is the primary source of funds for DLA operations. The Defense Logistics Agency executed a total budget program of $17.5 billion in FY00. The five DLA activity groups funded by the DWCF and included in these statements are Supply Management, Distribution, Reutilization and Marketing, Document Automation and Production (formerly the Defense Automated Printing Service) and Information Services. Defense Contract Management Command, which is no longer part of DLA, was funded through appropriations and therefore reported in the DoD

General Fund financial statements. The Defense Logistics Agency also receives some direct appropriations, and we manage a separate National Defense Stockpile Transaction Fund. However, those funds (and related financial events) are not accounted for in the DWCF financial statements.

Activity Group Missions

Supply Management. The Supply Management activity group provides customer support through management of logistics processes. This includes centralized management of logistics information, energy, consumable spare parts, food, pharmaceuticals, medical and surgical supplies, and clothing and textiles. Supply Management operates through four inventory control points located in Columbus, OH, Richmond, VA, Philadelphia, PA and at Ft. Belvoir, VA.

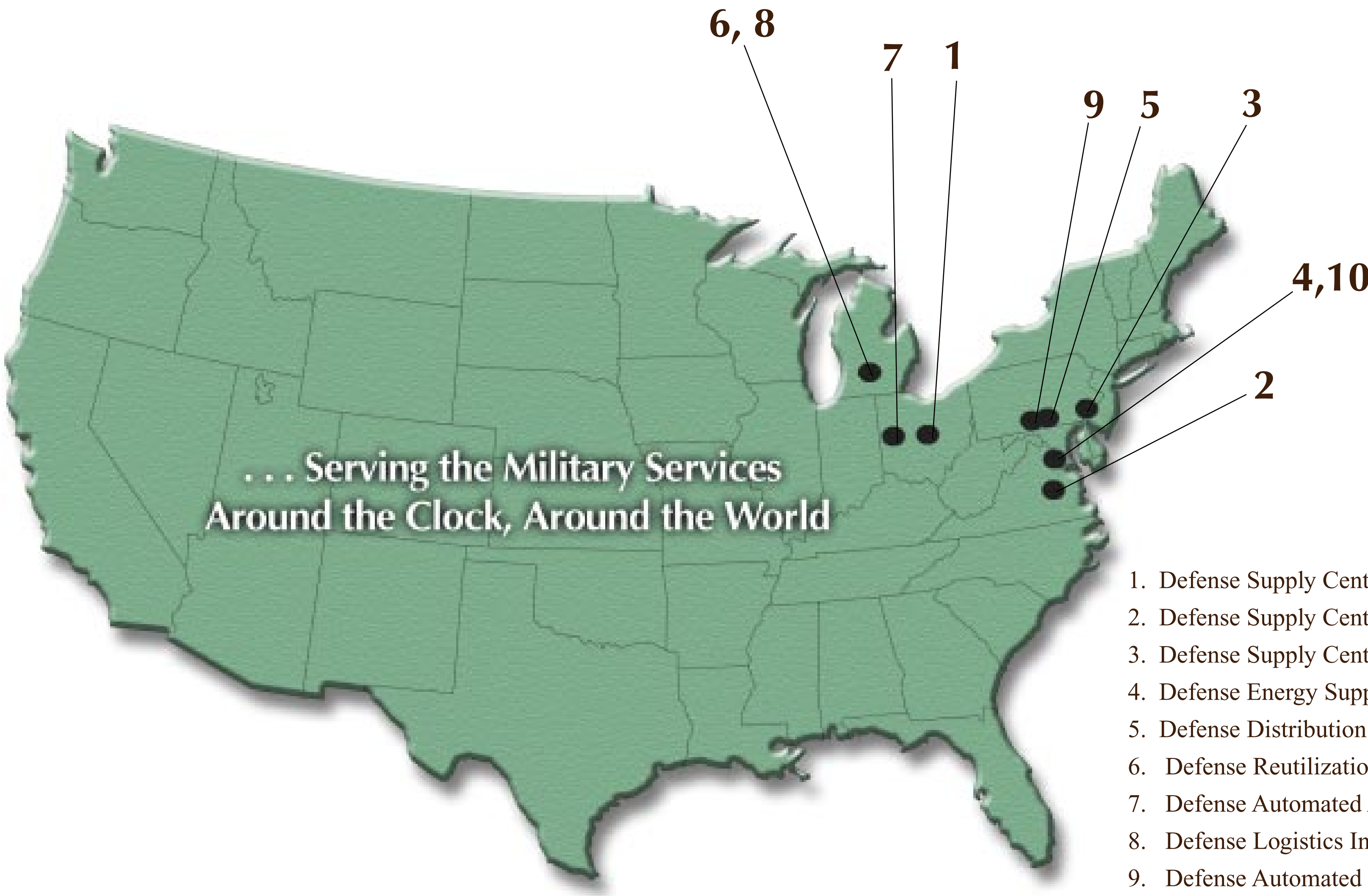
Distribution. The Distribution activity group provides a single, unified materiel distribution system for DoD. In addition to its primary mission of receiving, storing and issuing materiel worldwide, distribution depots perform other functions that include, but are not limited to, providing refrigerated storage, cylinder refurbishment, tent repair, medical unit assemblies, minor maintenance, and set assembly or disassembly. The Distribution activity group is under the control of the Defense Distribution Center in New Cumberland, PA and includes 24 subordinate distribution depots located throughout the United States and Europe.

Reutilization and Marketing. The Reutilization and Marketing activity group supports and coordinates the reuse of excess and surplus property within DoD. Property not reutilized within DoD is transferred to other Federal agencies, donated to authorized local government, and sold to the public on a competitive basis. A critical part of the Reutilization and Marketing activity group's mission is to arrange for the disposal of hazardous waste and materiel worldwide. The activity group accomplishes its mission from a headquarters in Battle Creek, MI and about 100 Defense Reutilization and Marketing Offices located on military installations around the world.

Document Automation and Production. The Document Automation and Production Service (DAPS) provides printing, duplicating and document automation for DoD. Its current focus is on the transition from hardcopy to digital/electronic-based document management. DAPS manages its worldwide mission through a Headquarters, located in Mechanicsburg, PA, and a network of 96 major field locations and 166 smaller document automation facilities.

Information Services. The Information Service activity group was comprised previously of the Defense System Design Center (DSDC) and the Defense Automated Addressing System Center (DAASC). With the strategic shift to acquiring rather than developing software, DSDC was not needed as a separate activity. Accordingly, it was disestablished in December 1998 and residual functions were rolled into the DLA sponsoring activity groups effective October 1, 1999. Some residual accounting continued to occur in FY00 in the Information Services activity group, and these financial statements reflect that activity. However, no future funding authority will be issued, and no future statements will be prepared. Additionally, since the Information Services activity group was officially disestablished, no separate program or financial performance measures existed in FY00.

DLA DWCF ACTIVITY GROUP PRINCIPAL LOCATIONS



1. Defense Supply Center Columbus
2. Defense Supply Center Richmond
3. Defense Supply Center Philadelphia
4. Defense Energy Support Center
5. Defense Distribution Center
6. Defense Reutilization and Marketing Service
7. Defense Automated Addressing System Center
8. Defense Logistics Information Service
9. Defense Automated Printing Service
10. Defense Logistic Agency

Supply Management Activity Group

Defense Working Capital Fund

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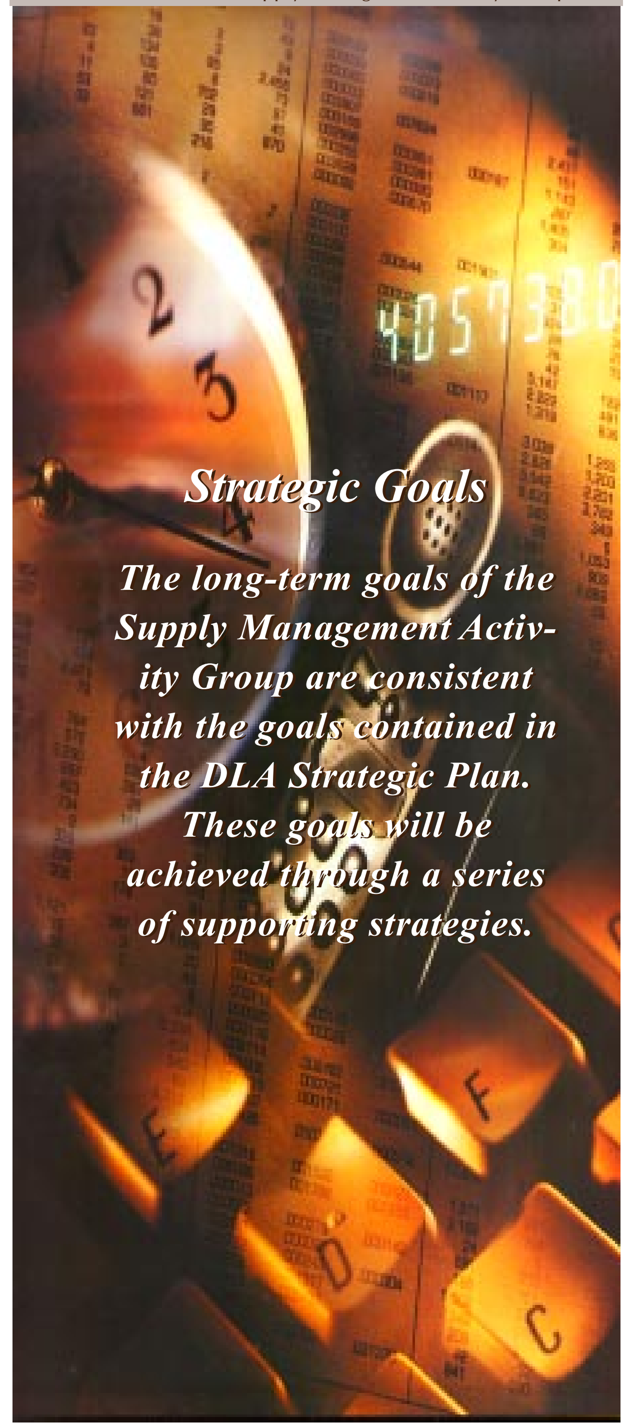
Supply Management Activity Group Overview

The Supply Management Activity Group consists of four Inventory Control Points (ICPs), two service centers and other corporate activities. The ICPs are located at Defense Supply Center Columbus, Ohio (DSCC), the Defense Supply Center Richmond, Virginia (DSCR), the Defense Supply Center Philadelphia, Pennsylvania (DSCP) and the Defense Supply Center Energy, Virginia (DESC). The Service Centers are the Defense Logistics Service Center (DLIS) and Defense Automatic Addressing Service Center (DAASC). The group's mission is to provide materiel and services to support peacetime and combat operations, combat preparedness and humanitarian aid. This includes integrated materiel management of nearly four million spare and repair parts supporting over 1,400 weapon systems. Supply Management also provides management of troop support items including subsistence, clothing and textiles, and medical supplies. The group also purchases, manages, positions, and sells over 100 million barrels of fuel annually and provides centralized support to meet the energy needs of the military installations. Together, these commodities generated revenues of about $13.2 billion in FY00 and is supported by over 10,000 personnel.

Mission

The mission of the Supply Management Activity Group is to provide customer support through management of logistics processes, to ensure that logistics support is provided to the Military Services worldwide at the right time, to the right place, and consistently at the best value in peacetime, emergency, and wartime scenarios. The mission is dynamic, and we continue to shift our 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 for both peacetime and combat support.
- ❑ Transportation management (shared with the Distribution Activity Group) for quick response in both normal and emergency situations.
- ❑ Technical management, which guarantees product quality and proper pricing of materiel.
- ❑ Procurement management, ensuring DoD gets the best value in procuring supplies managed by DLA.
- ❑ Logistics data and information collection, management, and distribution and providing for the integration and availability of this information.
- ❑ Logistics management process and processing of logistics and standard MILS transaction for the Military Services and Federal Agencies.



Strategic Goals

The long-term goals of the Supply Management Activity Group are consistent with the goals contained in the DLA Strategic Plan. These goals will be achieved through a series of supporting strategies.

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FY00 Accomplishments

Defense Supply Center Richmond (DSCR)'s **Just-in-Time (JIT)** Bushing Contract Support for Hill Air Force Base Landing Gear Overhaul Facility project adopts the commercial practice established by B.F. Goodrich, which uses a subcontractor, Advance Air, to provide custom manufactured bushings either at or close to the time of need in the repair process. The advantages of this approach are eliminating bushing "blanks" from the DLA inventory, reduced time required to rebuild landing gear, and nearly eliminating contract lead time delays, driving administrative lead time/production lead time, down from six months or more to three days. Three six-year long-term contracts have been awarded by DSCR that include 354 kits and have a total contract value of approximately $40 million. The first orders for the kits were placed in August 2000.

The DoD Ozone Depleting Substances (ODS) Reserve Program received the Secretary of Defense Productivity Excellence Award for outstanding contribution in quality and productivity management and resulted in more than $1 million in savings. In an intergovernmental cooperative effort, approximately 13,000 gallons of excess Type II solvent CFC-113 were transferred from DLA to the National Aeronautics and Space Administration (NASA). The solvent was critically needed by NASA to support the space shuttle program through the year 2020. The transfer resulted in a disposal cost savings of a least $1.8 million for DoD and an acquisition cost avoidance to NASA of $2.6 million. A December 1999 agreement with the Australian government provided available Halon 1301, a fire extinguishing substance, from Australia's excess recycled inventory to the U.S. DoD ODS Reserve. The agreement was accomplished with the support and guidance of the Environmental Protection Agency using an existing military structure between the U.S. and Australia. The transaction resulted in savings to the U.S. DoD between $11-20 million and demonstrates how world governments can work together to support regional security in an environmentally and economically sound manner.

The Defense Energy Support Center (DESC) developed and implemented the **PowerTrack** system throughout the Continental United States (CONUS). PowerTrack is U.S. Bank's electronic shipment and payment system, designed to electronically track fuel shipments by various modes of transportation and ensure electronic payments to carriers in as little as 24 hours. In October 1999, a pilot program was initiated simultaneously at both DFSP Carteret, NJ and DFSP Houston, TX. After successful field-testing at those locations, CONUS-wide implementation started in April 2000, with full implementation occurring in July 2000. Since implementation, PowerTrack has helped eliminate the use of the Government Bill of Lading and has revolutionized the way we do business with the carrier industry.

Phase IIB Capitalization and Retail Billing for DESC expanded the fuel capitalization program originally started in 1992 under Phase IIA of Integrated Materiel Management. Phase IIB involves the capitalization of all ground fuels, non-capitalized jet fuels, and DESC retail billing to the end-use customers. DESC capitalized over 100 sites from March to August 2000 and processed retail billings to numerous customers previously billed by the Military Services. DESC sponsored four capitalization conferences and numerous training sessions that trained over 150 people in preparation for capitalization. The elimination of retail billings previously performed via the Military Services' Working Capital Funds will facilitate the eventual closing of those accounts. The capitalization effort will continue through FY01, concentrating on Air Force ground fuels and retail billing.

The Defense Supply Center Philadelphia (DSCP)'s **Maintenance, Repair and Operations (MRO) Prime Vendor Program** with over $139 million in sales, more than doubled sales from the previous year. The MRO Program also received a Hammer Award. This award is the Vice President's tribute to teams of federal agencies and their private sector partners who have used reinvention principles to create a government that works better, costs less, streamlines processes, and delivers results.

The DSCP has taken the lead in evaluating alternative items of supply, increasing energy efficiency and reducing HAZMAT materiel in the supply chain through the **Subsistence Product Services-Standardization.** DSCP served as the initial project manager and technical liaison for introducing biodegradable utensils for use within the DoD. Market research and project advertisements have raised the interest of federal civilian agencies, academia, industry, and nongovernmental standard bodies. Efforts will continue in FY01 to move from plastic ware to biodegradable utensils in DoD.

The Defense Supply Center Columbus (DSCC)'s **Reverse Auctioning Initiative** saves time and administrative costs for awarding contracts below $25,000 by reducing administrative lead-time from 87 days to 14 days. The DSCC has made 863 fully automated auction awards. Of these awards, 36 percent were below the estimated price, resulting in a total savings of $147,247.61.

The Defense Supply Center Columbus awarded the first **Fleet Automotive Support Initiative (FASI)** valued at $500 million over a 10-year period. The primary goal of FASI is to improve customer support at the user level through a contractor who provides logistics, tailored specifically for each customer in support of their tracked and wheeled land-based vehicle fleet. It reduces the order, ship, delivery and turn-around time; thus, the quantity of unit and DLA maintained inventory is reduced.

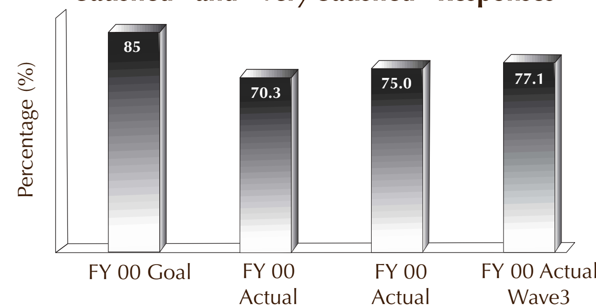
Program Performance Measures

Customer Satisfaction Index: This index measure directly supports the DLA Performance Contract goal to achieve 87 percent customer satisfaction by September 2003. This performance metric measures the percentage of customers who responded to our periodic mail-out surveys that they were either "satisfied" or "very satisfied" with DLA's products and services using a periodic mail-out survey. The goal for customer satisfaction in FY00 was 85 percent.

During FY00, DLA's Logistics Operations mailed out three waves of surveys: in December 1999, May 2000 and August 2000. Each wave surveyed a different random sample of customers from the customer population for DLA's ten supply and service centers (with the exception of the Defense National Stockpile Center). Although "satisfied/very satisfied" responses from our customers increased throughout FY00, our goal of 85 percent was not met. We are committed to total customer service/satisfaction and plan on improving the FY00 results by identifying those customers less than satisfied and ensuring their needs are being better met. Our accomplishments for the year are depicted below.

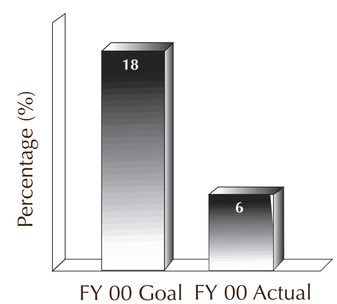
Customer Satisfaction Index

***"Satisfied" and "Very Satisfied"* Responses**



Logistics Response Time (LRT): This metric measures our response time and includes backorders and other delayed issues. If requisitioned materiel is not available from stock, it must be backordered and recorded as a delayed issue. Delayed issues represent a significantly longer response time than immediate issues. During FY00, 95 percent of all requisitions were filled within an average response time of six days. Many completed and ongoing initiatives helped us to achieve FY00 LRT actual performance that was significantly better than the performance target. Medical line item data and maintenance repair and operations prime vendor transactions, supplied via non-standard systems, were integrated into the Logistics Metrics Analysis Reporting System (LMARS) report. These transactions along with previously integrated subsistence transactions made a large contribution to our reduced LRT.

Logistics Response Time at 95% Reliability



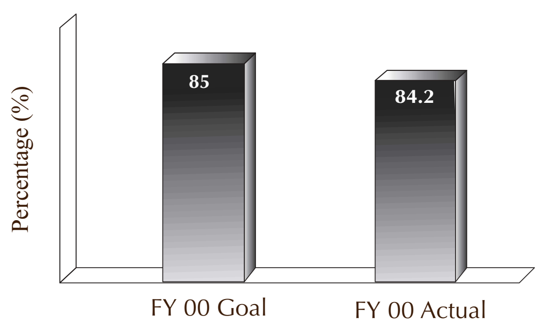
Average Response Time in Days

The following two metrics directly support the DLA Strategic Plan goal to consistently provide responsive, best value supplies and services to our customer:

Product Conformance: This performance metric measures the number of National Stock Numbers (NSNs) that passed random testing for critical and major defects or characteristics, divided by the number of total NSNs tested. Currently, this indicator applies to construction, electronics, industrial and general supplies. DLA has consistently achieved a product conformance result exceeding 90 percent. In FY00, we met our goal of 95.5 percent.

Weapons System Supply Availability. This performance metric measures our capability to ensure that weapon systems supplies are available when needed. During FY00, we missed our goal of 85 percent primarily due to higher than anticipated demands (as much as 15-20 percent at certain cycles throughout the fiscal year) and hardware center support issues. In particular, DLA began to see hardware supportability begin to lag for general and industrial items during the second quarter of FY00. Combined with traditionally high customer demands for these common items, and unanticipated demand spikes, availability rates began to cumulatively decline across weapon system platforms and the Military Services. As a result, focused efforts were initiated by DLA and each of its hardware centers to turn this overall trend around. These efforts include work to decrease overall aged backorders and procurement requests on-hand for stocked items, and increasing overall contract/PR award rates in each hardware center. In addition, hardware center target goals were also established for end of FY00 and FY01. Progress execution is currently being monitored by headquarters DLA through center bi-weekly reports and monthly Video Teleconference updates.

Weapons System Supply Availability



Percentage of Supply

Financial Performance Measure

In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Supply Management unit cost results for the Energy (fuel) commodity and the composite non-energy commodities:

	FY 00 Goal	FY 00 Actual
Cost per Barrel of Fuel	$ 38.84	$ 48.58
Non-Energy Cost per Dollar of sales	$ 1.00	$ 1.01

The cost per barrel of fuel includes the acquisition cost of a barrel of petroleum product in addition to operations costs for fuel services, transportation, and overhead. The FY00 actual cost per barrel was higher than our goal due to the high cost of petroleum. Actual petroleum product costs of $34.63 per barrel were $4.33 per barrel greater than planned petroleum product costs of $30.30 per barrel.

The unit cost for non-energy was over plan by $0.01. The FY00 actual cost for General and Industrial, Subsistence, and Land and Maritime was higher than the FY00 goal primarily due to materiel obligations for the award of minimum guarantee contracts and efforts to drawdown backorders with increases in labor and materiel related costs.

Results

The FY00 Net Operating Result for Supply Management Energy was a loss of $1.5 billion. While the year’s activities were for the most part on target with the plan, a number of items contributed to this result. Supply experienced increased prime vendor sales and a dramatic increase in fuel prices during the year. The gains in sales were more than offset by the unexpected rise in the cost of fuel, environmental liabilities, imputed FECA expenses, and military retirement benefits and other employment related benefits.

Distribution Activity Group

Defense Working Capital Fund

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DISTRIBUTION ACTIVITY GROUP

The Distribution Activity Group operates through the Defense Distribution Center and 24 subordinate distribution depots located throughout the United States and Europe. The group's mission is to manage the receipt, storage, issue, packing and preservation of consumable items, and to deliver materiel from its warehouses to on-base or nearby customer sites such as ships, posts and repair facilities. The activity group also contracts with a variety of commercial sources to transport items from vendor-owned and DLA-owned warehouses direct to customers worldwide. Some distribution depots are highly automated facilities that have been specifically designed to provide global support for general commodities. Others fill customer requirements on a regional basis, or provide global support for materiel that requires special equipment, facilities, or training. The distribution depots maintain the accountable records and are responsible for preserving about $79 billion in DoD materiel (at standard or selling price) stored at the depots. They also process over 23 million receipt and issue transactions annually. In FY00, this activity group generated revenues of $1.3 billion and employed over 10,000 personnel.

Mission

The mission of the Distribution Activity Group is the global distribution and warehousing of wholesale DoD weapon systems parts and consumable items such as medical, clothing, subsistence, electrical, industrial and general supplies. It performs this mission by managing materiel and logistics information to enable a seamless, tailored, worldwide DoD distribution network that provides effective and efficient support to the Commanders-in-Chief (CINCs), Military Services and others, in Theater and out, during war and peace. The distribution network ensures that America's warfighters receive the best value in distribution services by providing "around the clock - around the world," world-class service for the least cost to the taxpayers. All items are typically prepared and shipped within one day of receiving a shipping order.

Strategic Goals

The strategic goals established by the Distribution Activity Group are consistent with those contained in the DLA Strategic Plan. These goals are achieved through a series of supporting strategies that will:

- ***Increase our reliability, response time, and value to our customers by continually improving or reengineering business practices.***
- ***Provide best-value solutions to our customers by continuously evaluating our activities and implementing changes, as necessary, to ensure efficiency and effective distribution operations.***
- ***Reduce under-utilized infra structure by eliminating unnecessary storage capacity.***

FY00 Accomplishments

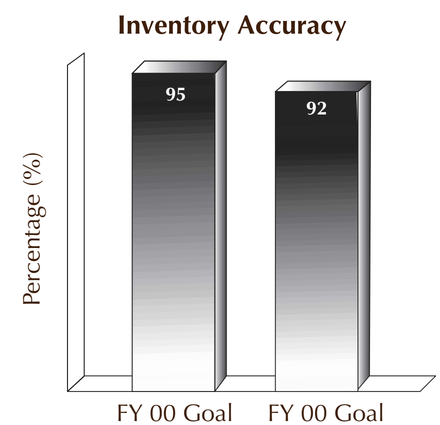
Infrastructure Cost Reduction through A- 76 Cost Comparisons. The Distribution Activity Group is challenged by an infrastructure far bigger than requirements dictate. In FY98, DLA began the process of competing three of its depots with private industry. The goal of the competition is to reduce operational costs either by reengineering existing depot business processes or privatizing the depots. The first competitive decision resulted in the Defense Distribution Depot Columbus, OH (DDCO) retaining its depot operations and management in house, at a significantly reduced staffing level and cost. The next two competitions resulted in the Defense Distribution Depot Barstow, CA (DDBC) and the Defense Distribution Depot Warner Robins GA (DDWG), contracting out their distribution operations. The three depots became pilot studies, which have taught us some valuable lessons regarding the privatization program that we will incorporate into future competitions.

Strategic Distribution Platform (SDP) Reengineering The two SDPs located in Pennsylvania and California reconfigured warehouse operations by shifting workload from subordinate sites. In California, the Tracy Facility became the focal point for the receipt, storage and distribution of fast moving, high-demand items; and the Sharpe Facility is used as the storage site for slow-moving, low-demand bulk items. In Pennsylvania, the New Cumberland and Mechanicsburg facilities had a similar shift. This initiative resulted in eliminating duplicative functions, thus reducing personnel and increasing productivity by 30 to 33 percent.

Sampling for Dollar Accuracy. During FY00, DLA implemented a sampling plan that was designed to assess the dollar value accuracy of DLA-owned items stored at the distribution depots. This sampling plan, which relies on statistical sampling techniques, is intended to help DLA get an audit opinion on the financial statements by demonstrating that the dollar accuracy of the depot records is high enough to support the preparation of reliable financial statements. FY00 results on sample indicate quantity accuracy at depots is within 1 percent. The sampling estimates a net misstatement of ($39 million) from a September 30, 2000 book value of $8.9 billion. This falls within the materiality bounds of $\pm$ 2.5 percent and estimated inventory values are considered to meet materiality.

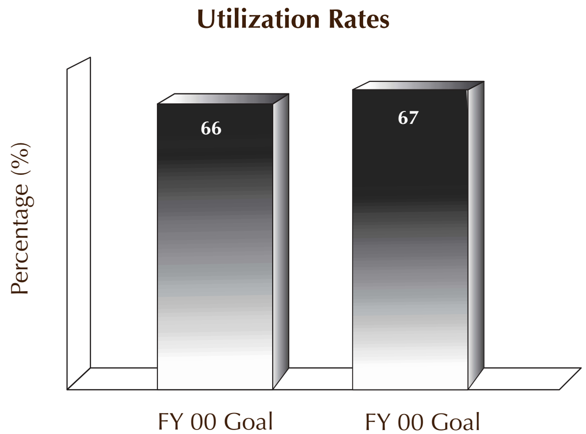
Program Performance Measures

Inventory Record Accuracy. This measure directly supports the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. This performance metric measures the accuracy of inventory records using statistical sampling techniques, which are performed semi-annually. Starting in FY99, 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 FY99 baseline accuracy rate was 91.9 percent and the FY00 goals for inventory accuracy were 95 percent overall and 99 percent for items in the high dollar strata. Our record accuracy has improved to 92.4 percent overall and 95.9 percent in the high dollar strata. Our overall record accuracy improved to 92.4 percent, which was within 3 percent of our goal of 95 percent. The reason we were unable to achieve our goal was due primarily to staff reductions and uncertainty caused by the ongoing and planned public-private competitions.



Accuracy of Inventory to Records

Storage Space Utilization. This goal of increasing space utilization ties directly to the DLA Strategic plan goal to serve as a catalyst in the revolution in business affairs and acquisition reform. The distribution mission has an excess of warehouses. In an effort to reduce infrastructure costs, the Distribution Activity Group measures storage capacity and occupancy to identify improvements in space utilization and eliminate unnecessary space. This performance goal measures space occupancy. In FY00, our space utilization rate was 67 percent, which exceeded our goal by 1 percent.



% of space capacity Utilized

Financial Performance Measures

In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. These unit cost rates reflect a portion of total cost. The FY00 goals presented below are from the FY01 President's Budget and are considered to be a more accurate measure of performance. The following table depicts the Distribution unit cost results for processing and storage

	FY00 Goal	FY00 Actual
Unit Cost-Total Composite Rate	28.06	26.53
Unit Cost- Covered Storage	.86	.83
Total Cost ($ millions)	1382.10	1294.20

The **Unit Cost Total Composite Rate** measures all associated labor and non-labor processing costs to the number of receipt and issue line items processed. The **Unit Cost-Covered Storage** measures all associated labor and non-labor storage costs to the cubic square footage used.

Total costs incurred equal the labor, benefits, travel, permanent change of station, transportation, rents, printing, purchased services, purchased supplies and equipment, interest charges and depreciation. In FY00 total costs were down in processing, storage, and reimbursables due to rapid reductions in personnel end strengths that resulted from on going and planned A-76 studies as well as reduced real property maintenance and depreciation costs incurred. These costs are based on the Unit Cost rates used by the Distribution Activity and differ from the Statement of Net cost, which includes military construction depreciation and imputed expenses.

Results

The FY00 Net Operating Result for the Distribution Activity Group was over executed by $44.8 million. Both revenue and expenses fell short of the Program Budget Plan (PBP) for FY00. Revenue was below plan by $60.7 million mostly due to the reimbursable workload. This was a direct result of lower than anticipated workload of $32.3 million and revenues omitted in the accounting systems for reimbursable work performed due to a worktime exceptions interface deficiency of $28.4 million. Expenses were less than expected by $87.9 million primarily due to the following: deobligation of second destination transportation (SDT), over ocean transportation (OOT), and other contracts totaling 24.5 million, depreciation expenses not processed for $19.9 million due to assets not being recorded properly in the property system (DPAS), under execution of real property maintenance for $21.1 million due to time constraints of procurement process, under execution of SDT by $8 million and OOT by $13.2 million, reduced labor costs due to A-76 competitions and DDSP merger for $8.5 million, and DSIO expenses were not accounted for totaling $7.5 million. Various increases in expenses were incurred totaling $14.6 million for VERA/VSIP, travel, and material and operating supplies.

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Defense Reutilization and Marketing Activity Group

Defense Working Capital Fund

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DEFENSE REUTILIZATION AND MARKETING ACTIVITY GROUP

Overview

The Defense Reutilization and Marketing Service (DRMS) coordinates the reuse of excess and surplus property for the DoD and other authorized agencies. Reutilization of Defense materiel by DoD customers reduces the need to purchase materiel. In FY00, materiel with an acquisition value of $16.8 billion was turned in to DRMS and $1.8 billion was re-utilized by DoD. DRMS also oversees the disposal of remaining property and hazardous waste items through sales and contracts. The offices receive about $20 billion of excess, surplus, and hazardous DoD property for disposal annually. Much of the materiel received must be demilitarized before it can be sold, transferred, or donated.

The DRMS command and control mission is accomplished from the headquarters organization in Battle Creek, MI. The mission is accomplished through Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lot categorization, merchandising and sale. The FY00 mission was performed with just over 2,100 personnel, over 350 less than FY99, and generated revenues of $170 million.

Mission

The DRMS manages the reutilization, transfer, donation, and sale of military personal property, as well as disposal of hazardous waste items no longer needed for national defense. The goal is to maximize the financial return on the initial equipment investment and protect both valuable natural resources and the environment.

Strategic Goals

The long-term goals of the Reutilization and Marketing activity group consistent with the goals contained in the DLA Strategic Plan.

These goals are achieved through a series of supporting objectives and initiatives designed to improve and reengineer business practices ensure efficiency, effectiveness, and best-value costing.

FY00 Accomplishments

Mid-Tier Replacement. In FY00 DRMS replaced 51 dispersed Hewlett Packard Super Mini Computers with 13 new computers, eight of which are centrally located with the DRMS Headquarters. Through this effort DRMS was able to achieve a cost avoidance of $775 thousand (the cost of replacing the 51 obsolete computers) and will save approximately $300 thousand annually through reduced maintenance. The Defense Reutilization and Marketing Service has achieved impressive results in reengineering/reshaping itself for the 21st Century. They continue with their strategic vision of "moving information, not property" without physically accepting materiel. The number of Systems Monitors (personnel) required to support the dispersed machines was cut nearly in half (51 to 26). Inquiries are completed approximately 75 percent faster and the centrally run system permits more flexibility in dispersing workload.

Winner of the 2000 Government Technology Leadership Award. The Defense Reutilization and Marketing Service was honored with recognition of its innovative and groundbreaking use of technology. Selected from more than 60 nominatees, DRMS was picked as one of the winners of the 2000 Government Technology Leadership Award. The award recognizes an organization's accomplishment in technological advances. DRMS' earned the recognition for its use of the World Wide Web to offer customers easier access to information on excess and surplus property that earned the recognition. DRMS has demonstrated leadership in the use of the Internet to expand business and has utilized this "virtual warehouse" since 1994. The internet-based system saves both DRMS and its customers money. Web Ordering has increased from 55 percent in FY99 to 70 percent in FY00.

Transaction Activity Billing (TAB). Since FY92, DRMS has recovered a portion of its operating costs with a Service Level Billing to the Supply Management Activity Groups. In FY00 DRMS developed an alternative method of determining each customer's disposal bill known as TAB. Transaction Activity Billing utilizes the DRMS' existing Activity Based Costing (ABC) model and workload data to develop discrete cost recovery rates for eight major DRMS' disposal processes. They can now charge their customers based on actual use. TAB was approved by OUSD(C) for implementation in FY02.

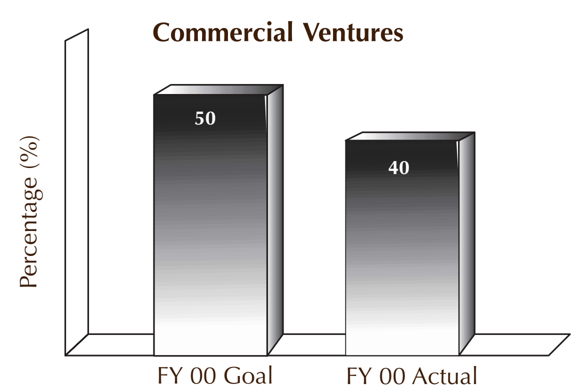
OMB Circular A-76 Competition. During FY00, DRMS completed the process of studying and competing the logistics (stock, store and issue) functions at ten DRMOs located in the Northeast United States. As a result of the competition, DRMS is partnering with Resources Consultants Incorporated for performance of these functions.

Business Education Program. Over the last four years DRMS designed and deployed a standardized Business Education Program that was presented to the entire DRMS workforce, worldwide. This program was designed to educate employees on the business and skill changes taking place in DRMS to prepare them for the future. The program consisted of five courses covering why DRMS and the business world are changing, customer service, information technology, financial management, and finally the changing workforce. Each course averaged 16 hours of instruction and was taught by senior leaders and managers within the organization.

Program Performance Measures

The Defense Reutilization and Marketing Service performance measures support the DLA Performance Contract and the J-3 Performance Management Review Process. The objective is efficient, effective, and economic reutilization, marketing and demilitarization of surplus defense items.

Commercial Venture: This measure, which is the percentage of property referred for sale to commercial ventures (CVs), is an indicator of the degree to which DRMS has privatized the sales workload. The commercial venture

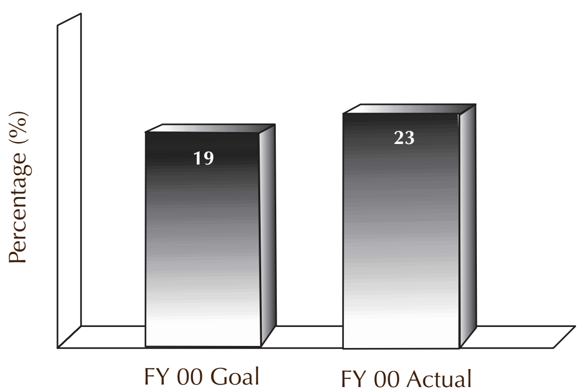


% of Propery Referred for Sales to Commerical Venture

concept privatizes the marketing and resale of excess materiel on a shared-revenue basis. The commercial venture partnership with industry is expected to improve the net operating results by outsourcing the sales functions. By end of FY02, 75 percent of DRMS' sales workload is projected to be accomplished through similar long-term sales arrangements. DRMS expected to award a second commercial venture contract during FY00, increasing the percent of property sold by this vehicle to 50 percent. However, DRMS determined that additional time was required to analyze the results of the first CV contract and deferred award of CVII until FY01. Therefore, the aggregate percent of property sold via commercial venture in FY00 was 40 percent, 10 percent below goal.

Reutilization/Transfer/Donation (R/T/D: This indicator represents the aggregate acquisition value of the property reutilized, transferred and donated, expressed as a percentage of acquisition value of all excess/surplus personal property received (total receipts). The indicator applies to the available assets which are economically reused, thus preventing concurrent procurement of new assets. It addresses disposal via reutilization by another defense customer, transfer to another federal agency, or donation to eligible state and local governments or non-profit organizations. Viewing R/T/D dispositions as a percentage of usable receipts indicates compliance with federal regulations that mandate reuse through these cost avoidance programs as the first priorities of disposal. In FY00, the reutilization rate exceeded the goal by 4 percent.

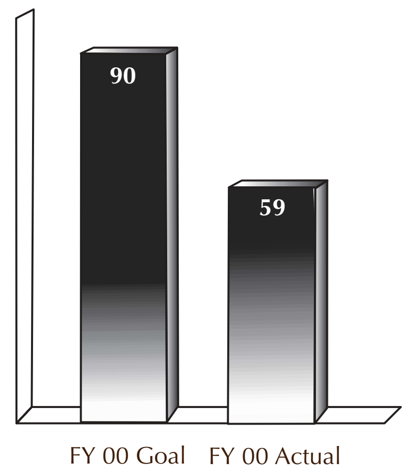
Reutilization/Transfer/Donation



% of Propery R/T/D

Hazardous Waste Process Cycle time: This measure monitors the duration of component processes and total of DRMS cycle time for hazardous waste disposal. The Defense Reutilization and Marketing Service would be in violation of Federal and/or State laws, if the total process exceeds 90 days. The increments monitored are as follows: accumulation start date to receipt, receipt to input, input to delivery order and delivery order to pickup. During FY00, DRMS complied with the 90-day goal by achieving 59-day cycle times.

Hazardous Waste Process Cycle Time



Total DRMS cycle time for HW disposal

Financial Performance Measures

In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Defense Reutilization and Marketing Service unit cost results for each of their support categories:

Financial Performance Measures	FY00 Goal	FY00 Actual
Cost/Dollar of Acquisition Value – Reutilization/Transfer/Donation	$0.01976	$0.02025
Cost/Pound – Ultimate Disposal	$ 0.195	$ 0.202
Cost/Dollar – Sales Proceeds	$ 1.4001	$ 1.3548
Cost/Line – Abandonment & Destruction	$ 299.44	$ 320.70

DRMS is measured on four unit cost goals: Reutilization/Transfer/Donation (R/T/D), Ultimate Disposal, Sales Proceeds and Abandonment & Destruction (A&D).

The FY00 R/T/D actual unit cost was higher than planned because of accelerated transportation billing in the DFAS PowerTrack GBL payment system. R/T/D workload was also higher than projected, by $0.6 billion in acquisition value of property issued.

The Ultimate Disposal actual unit cost was higher than planned due to a demanufacturing cost of $3.0 million. Without this cost, the Ultimate Disposal unit cost would have been $0.189. Ultimate Disposal workload was above plan due to a one-time removal of contaminated soil and asbestos.

The Sales Proceeds unit cost was lower than planned as a result of large personnel reductions in the sales business unit and efforts to reduce costs overall.

The A&D unit cost goal was higher than planned due to a shift in the disposal environment, where DRMS is experiencing an increase in the amount of lower quality property being turned in for disposal. More of this property is turned in as or downgraded to scrap. Scrap, measured in pounds, disposed of by the A&D process is excluded from the unit cost workload because the A&D output measure is expressed in lines. This metric will be revised to pounds in FY01 and DRMS will convert usable A&D items to pounds in order to capture all workload.

Results

The Reutilization and Marketing activity group showed a net loss of $179.6 million (including imputed costs) for FY00. A number of factors influenced this operating result. The Deputy Secretary of Defense directed that the annual Service Level Bill that normally recovers losses would not be collected in FY00. Instead, the projected FY00 loss of $160.0 million and the prior year loss of $31.5 million would be recovered in FY01 and FY02. The Defense Reutilization and Marketing Service also experienced lower than estimated revenue from the sale of surplus personal property to the public. This was a direct result of the Military Services turning in excess property less than anticipated. The lower quality of the excess property turned in also impacted sales revenue. An increase in the amount of scrap disposals was seen by DRMS. Scrap has no value other than for materiel content; a weak scrap market continued to depress prices for ferrous, non-ferrous and non-metallic scrap.

Defense Automation and Production Service

Defense Working Capital Fund

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DOCUMENT AUTOMATION AND PRODUCTION SERVICE

Overview

The Document Automation and Production Service (DAPS) manages its worldwide mission through a Headquarters, located in Mechanicsburg, PA, and a network of 96 major field locations and 166 smaller document automation facilities. DAPS is responsible for the DoD printing, duplicating, and document automation programs, encompassing value-added conversion, electronic storage and output and the distribution of hard copy and digital information. All DoD printing requirements, whether produced in-house or procured through the Government Printing Office (GPO), are forwarded to DAPS to ensure compliance with DoD directives and the Federal Printing Program. The congressional Joint Committee on Printing exercises oversight over all Federal printing, including the DAPS in-house capability. The Document Automation and Production Service earned FY00 revenue of $373 million. The DAPS employed over 1,600 personnel at the end of FY00. DAPS' customers are Air Force (21 percent), Navy (28 percent), Army (21 percent), Defense Agencies (20 percent) and non-DoD customers (10 percent).

Mission

The mission of DAPS is to provide best value document automation and management solutions in support of America's armed forces and Federal agencies, including the capture, management, access, distribution and output of digital and hardcopy information. DAPS provides time sensitive, competitively priced, high quality products and services that are produced in-house or procured from commercial sources. The Document Automation and Production Service is the recognized leader in document automation and the customer-preferred provider of automated digital and hardcopy information products and services. DAPS is dedicated to the transition from paper to electronic-based document management and is an integral part of the DoD plan to transition into the age of electronic documents and commercial business practices.

Strategic Goals

DAPS is committed to the following goals as identified in their FY00 Business Plan:

- ❑ ***Serving as a catalyst for revolutionizing document automation services and customer business processes,***
- ❑ ***Rapidly utilizing technology for agile, responsive, internal business solutions,***
- ❑ ***Aggressively pursuing partnerships with government, industry and suppliers,***
- ❑ ***Ensuring that our 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 the workload,***
- ❑ ***Improving the quality of our products and services, while meeting or exceeding our customers' delivery requirements.***

FY00 Accomplishments

The DLA Vice Director presented the DAPS Philadelphia staff with the **DLA Scissors Award** in August 2000. The award spotlighted an online contracting system (the DLA Procurement Gateway web site) that was created to allow prospective contractors to submit their bids online. DAPS Philadelphia was recognized for exemplary performance in streamlining and automating the DoD Single Stock Point (DoDSSP) for Military Specifications and Standards. Also recognition was given for continued improvement and refinement of the Acquisition Streamlining and Standardization Information System (ASSIST)-Online system, and the work to integrate its document repository with the DLA's Procurement Gateway web site.

The DAPS Great Lakes office began a process to convert approximately 2.5 million pages of paper to digital format for the Internal Revenue Service (IRS) in Chicago. The documents will be converted to the Portable Document Format (PDF), linked to an index created in Microsoft Access, and written to Compact Disk (CD). Because the documents are sensitive, the IRS toured the DAPS facility to verify security controls; they were very satisfied. The project started in June and will take about one year to complete.

The **Phantom Clerk Project** from the DAPS Ft. Hood office was selected as one of the Laureates for inclusion in the Smithsonian's National Museum of American History's Information Technology Innovation Collection. The project eliminated a 9,000 square foot forms warehouse by making the forms available on the Internet.

In January 2000, DAPS awarded a **Shipboard Multipurpose Copier Program (SMCP) contract.** DAPS Headquarters manages the program; and offices in Norfolk, VA and San Diego, CA are the ordering offices. Multifunctional devices (a major part of the program) are an economical alternative to stand-alone office copiers; fax machines, printers and scanners.

During FY00, DAPS entered into a national paper contract that is expected to reduce storage requirements, speed delivery times, and a reduce paper costs by approximately 10 to 15 percent. Additionally, the paper will contain 30 percent post-consumer waste fiber.

Program Performance Measures

Conversion to Digital Format: This performance metrics tied to the DLA Strategic Plan and the DLA Performance Contract. It serves as a catalyst for the revolution in business affairs and acquisition reform. This performance metric measures the number of pages (in millions) converted to digital format during the year. Conversions may be accomplished either in-house or by contract and includes hardcopy to digital, system output to digital and from one form of digital to another. DAPS successfully exceeded its goal of 31.9 million pages converted with an actual production of 46.2 million pages.

The following performance metric ties to the DLA Strategic Plan goal of consistently providing responsive best value supplies and service to our customers.

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking DAPS performance as "satisfied" or "very satisfied." DAPS uses a survey, professionally prepared and administered by an independent entity, to determine an overall customer satisfaction rating. The survey conducted during FY00 showed that DAPS met its goal of 93 percent customer satisfaction.

Production Efficiency Factor: This performance metric measures our production efficiency in terms of units produced per hour. The units are converted to standard hours earned. Employee time is captured by cost center as hours available. The employee hours available are divided into the hours earned to produce the production efficiency factor shown as a percentage. DAPS production efficiency was 95.6 percent for FY00.

The Document Automation and Production Service created two performance metrics to measure the cost of rework.

- **In-House Rework Percentage:** This performance metric is calculated by dividing revenue lost from orders not accepted by the total in-house production revenue. During FY00, we met our goal of 0.46 percent.
- **Commercial Rework Percentage:** This performance metric is calculated by dividing problem jobs by total jobs submitted to the Government Printing Office (GPO). FY00 Goal was 2.00 percent revenue loss due to rework requirement. DAPS actual for FY00 was 2.20 percent.

Financial Performance Measure

In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with a unit cost performance measure. The DAPS Annual Operating Budget (AOB) measures this performance by dividing the total units by the total cost. The FY00 goal was .0494.

	FY00 Goal	FY00 Actual
Unit Cost per-In-house Production Unit	.0494	.0536

DAPS did not achieve its unit cost goal due to the reduction in workload, increase in document electronic conversion and one-time costs. DAPS' changes in workload reflect the transition of the Department from hardcopy to digital documents. The number of pages converted to digital by DAPS in FY00 increased 2.2 percent from FY99, but hardcopy pages produced fell by 12.5 percent. This trend is expected to continue and result in decreases in total units produced.

Results

The Document Automation and Production Service finished FY00 with a net operating loss of $22 million (including imputed costs). During the FY, DAPS made net prior year adjustments of $27 million to reverse outstanding and invalid accounts payable that were not possible to process in prior fiscal years due to the accumulation of unmatched disbursements. Since the Defense Working Capital Accounting System (DWAS) does not maintain fiscal year integrity of expenses, these adjustments were reflected in the current year.

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Financial Condition

Defense Working Capital Fund

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Financial Condition

The financial statements report the financial position and results of operations for the DLA WCF pursuant to the requirements of the 31 U.S.C. 3515(b). While the statements have been prepared from DLA books and records, in accordance with the formats prescribed by the Office of Management and Budget, 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 have been prepared in accordance with Federal accounting standards. At times, DoD is unable to implement all elements of the standards due to financial management systems limitations and continues to implement system improvements to address these limitations. The statements should be read with the realization that they are for a component of the U.S Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to perform the liquidation.

Defense-Wide Working Capital Fund. The Defense–wide working DoD Working Capital Fund (DWCF) was created to establish a customer-provider relationship between the military operating forces and support organizations, in order to improve delivery of support services while reducing the cost of operations. The financial structure of the DWCF allows for the identification of the full cost of activity groups and facilitates performance measures to foster efficiency and productivity improvements. This enables the customer to make economical buying decisions using timely and accurate financial information in the decision-making process. The DLA evaluates monthly financial reports and makes appropriate adjustments in budget execution during the year to ensure that the activity groups are consistent with budget execution targets. Additionally, the financial data is used as a baseline for future budget requests and to establish prices.

The DLA Working Capital Fund finished the year with total assets valued at about $11.7 billion, liabilities of about $2.5 billion, and a Net Operating Loss of about $1.7 billion on program costs of about $15.9 billion and earned revenue of about $14.2 billion. It should be noted, however, that DLA will generally report some imputed costs in the financial statements such as retirement costs that are not paid by the DWCF and therefore not captured in the rates DLA charges its customers.

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Systems, Controls and Legal Compliance

Defense Working Capital Fund

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Systems, Controls, and Legal Compliance

For most of its nearly 40-year history, DLA operated its complex, worldwide logistics support mission under a "holding company culture," with strong command and control lines along multiple business segments and programs. Over time, this led to "stovepipe" organizations that developed their own automated systems (legacy systems) and accounting processes. The established practices worked well to achieve our operational requirements and to provide outstanding customer service. However, the existing processes produced a fragmented and very complex set of accounting processes and systems that often resulted in different accounting methods and systems to account for essentially the same types of transactions.

The Defense Finance and Accounting Service (DFAS) prepared the DLA financial statements from finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes in place during FY00. Most of the automated systems were designed decades before the current Federal accounting standards were developed, making it difficult to collect the data needed to prepare financial statements that comply with Federal standards from the legacy systems. Additionally, there is often insufficient documentation available showing how financial transactions are processed through the systems, making it very difficult for auditors to audit the financial statements and for DLA to demonstrate a high level of internal controls and compliance with pertinent financial laws and regulations. Other data comes from DFAS systems that are not only not linked with DLA systems, but often cannot pass data easily among other DFAS systems. The system deficiencies and our plans to correct them are more fully addressed in our Annual Statement of Assurance.

The Defense Logistics Agency has a multitude of on going and planned efforts designed to fully assess DLA financial operations and to develop systems and processes that are fully integrated and compliant with Federal system and accounting requirements. The DLA approach is to chart a strategy that will result in long-term solutions to address the enormous challenges that lie ahead and, at the same time, make significant progress towards addressing the immediate problems preventing us from getting an opinion on our financial statements. Some of our major strategies include:

- The Defense Logistics Agency made an enormous commitment to upgrade its logistics systems through the Business Systems Modernization (BSM) initiative. The BSM strategy will at first, impact mostly the "supply/non-fuels" businesses by replacing our obsolete suite of mission critical automated systems with commercial-off-the-shelf enterprise resource planning software and advanced planning and scheduling systems. FAS performs a similar modernization for the "supply/fuels" operations. To help make the BSM initiative a success, the Office of Comptroller has dedicated a team of financial experts to help ensure that the new suite of systems will furnish complete, accurate, timely, and reliable financial data continuously.

- In August 2000, we contracted with a commercial sector audit firm and began what we expect to be a long-term partnership arrangement that will allow the auditors to work toward a complete audit and opinion on our financial statements and related processes and controls. Senior management has committed to working with the auditors to overcome all obstacles preventing us from receiving audit opinions on our financial statements as soon as possible. We have also established an Audit Committee to provide oversight of the audit process and to make sure that corrective actions get implemented.

- We established a CFO Compliance Team dedicated to work with DoD, DFAS, and audit personnel to coordinate, document, and monitor DLA and DFAS actions aimed at resolving outstanding audit issues. The team developed a compliance plan that describes the specific actions and milestones to correct the deficiencies that have been identified by the auditors and the plan will be continuously updated to address any new issues that are identified.

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Principal Financial Statements

Defense Working Capital Fund

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DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2000
($ in Thousands)

	FY 2000
ASSETS (Note 2)	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	$ 0
Investments	0
Accounts Receivable (Note4)	846,981
Other Assets (Note 5)	529
Total Intragovernmental Assets	$ 847,510
Cash and Other Monetary Assets	$ 0
Accounts Receivable (Note 4)	137,050
Loans Receivable	0
Inventory and Related Property (Note 6)	9,498,125
General Property, Plant and Equipment (Note 7)	938,649
Other Assets (Note 5)	524,057
TOTAL ASSETS	**$ 11,945,391**
LIABILITIES (Note 8)	
Intragovernmental:	
Accounts Payable (Note 9)	$ 191,151
Debt	0
Environmental Liabilities (Note 10)	0
Other Liabilities (Note 11 & Note 12)	229,618
Total Intragovernmental Liabilities	$ 420,769
Accounts Payable (Note 9)	$ 1,762,550
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 13)	242,304
Environmental Liabilities (Note 10)	0
Loan Guarantee Liability	0
Other Liabilities (Note 11 and Note 12)	120,353
TOTAL LIABILITIES	**$ 2,545,976**
NET POSITION	
Unexpended Appropriations (Note 14)	$ 1,556,200
Cumulative Results of Operations	7,843,215
TOTAL NET POSITION	**$ 9,399,415**
TOTAL LIABILITIES AND NET POSITION	**$ 11,945,391**

The accompanying notes are an integral part of these statement

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
As of September 30, 2000

($ in Thousands)

	FY 2000
Program Costs	
Intragovernmental	$ 939,019
With the Public	14,959,433
Total Program Cost	15,898,452
(Less: Earned Revenue)	(14,194,501)
Net Program Costs	$ 1,703,951
Costs Not Assigned to Programs	0
(Less:Earned Revenue not attributable to Programs)	0
Net Costs of Operations	**$ 1,703,951**

The accompanying notes are an integral part of these statements.

See Note 1 and 15

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATED STATEMENT OF NET POSITION
As of September 30, 2000
($ in Thousands)

	FY 2000
Net Cost of Operations	**$ 1,703,953**
Financing Sources (other than exchange revenues	
Appropriations Used	0
Taxes and Other Nonexchange Revenue	0
Donations - Nonexchange Revenue	0
Imputed Financing (Note 16)	110,858
Transfers - in	55
Transfers - out	(463,593)
Other	224,700
Total Financing Sources (other than Exchange Revenues)	(127,980)
Net Results of Operations	$ (1,831,933)
Prior Period Adjustments (Note 16)	174,896
Net Change in Cumulative Results of Operations	$ (1,657,037)
Increase (Decrease) in Unexpended Appropriations	1,556,200
Change in Net Position	$ (100,837)
Net Position-Beginning of the Period	9,500,252
Net Position-End of the Period	**$ 9,399,415**

The accompanying notes are an integral part of these statements.

See Note 1 and 15

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
COMBINED STATEMENT OF FINANCING
As of September 30, 2000
($ in Thousands)

	FY 2000
OBLIGATIONS AND NONBUDGETARY RESOURCES:	
Obligations Incurred	$ 17,495,370
Less: Spending Authority from Offsetting Collections and Adjustments	(14,879,919)
Donations Not in the Entity's Budget	0
Financing Imputed for Cost Subsidies	110,858
Transfers-In (Out)	0
Less: Exchange Revenue Not in the Entity's Budget	1,305
Nonexchange Revenue Not in the Entity's Budget	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0
Other	0
Total Obligations as Adjusted and Nonbudgetary Resource	$ 2,727,614
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:	
Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received or Provided (Increases)/Decreases	(1,419,0930)
Change in Unfilled Customer Orders	121,534
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(15,557)
Financing Sources that Fund Costs of Prior Periods	30,629
Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0
Other - (Increases)/Decrease	139,440
Total Resources That Do Not Fund Net Costs of Operations$	$ (1,143,047)
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES	
Depreciation and Amortization	$ 120,089
Bad Debts Related to Uncollectable Non-Credit Reform Receivables0	
Revaluation of Assets and Liabilities - Increases/(Decreases)	0
Loss of Disposition of Assets	(6,850
Other - (Increases)/Decrease	0
Total Costs That Do Not Require Resources	113,239
FINANCING SOURCES YET TO BE PROVIDED	6,147
NET COST OF OPERATIONS	**$ 1,703,951**

The accompanying notes are an integral part of these statements.

See Note 1 and 18

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATING BALANCE SHEET

As of September 30, 2000
($ in Thousands)

	Distribution Depots	Information Services	Document Automation Production Service	Reutilization & Marketing	Supply Management	Combined Total	Eliminations	2000 Consolidated
ASSETS (Note 2)								
Intragovernmental:								
Fund Balance with Treasury (Note 3)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Investments	0	0	0	0	0	0	0	0
Accounts Receivable (Note4)	163,174	127	101,665	25,400	794,289	1,084,655	237,674	846,981
Other Assets (Note 5)	473	2	3	1,193	9,509	11,180	10,651	529
Total Intragovernmental Assets	$ 163,647	$ 129	$ 101,668	$ 26,593	$ 803,798	$ 1,095,835	$ 248,325	$ 847,510
Cash and Other Monetary Assets	0	0	0	0	0	0	0	0
Accounts Receivable (Note 4)	284	0	2,649	7,668	126,449	137,050	0	137,050
Loans Receivable	0	0	0	0	0	0	0	0
Inventory and Related Property (Note 6)	0	0	11,731	133,970	9,352,424	9,498,125	0	9,498,125
General Property, Plant and Equipment (Note 7)	409,603	0	21,538	118,273	389,235	938,649	0	938,649
Other Assets (Note 5)	56,027	19	87	13,811	454,113	524,057	0	524,057
TOTAL ASSETS	**$ 629,561**	**$ 148**	**$ 137,673**	**$ 300,315**	**$11,126,019**	**$12,193,716**	**$ 248,325**	**$11,945,391**
LIABILITIES (Note 8)								
Intragovernmental:								
Accounts Payable (Note 9)	$ 56,545	$ 356	$ 8,881	$ 9,980	$ 353,063	$ 428,825	$ 237,674	$ 191,151
Debt	0	0	0	0	0	0	0	0
Environmental Liabilities (Note 10)	0	0	0	0	0	0	0	0
Other Liabilities (Note 11 & Note 12)	20,070	68	2,874	53,691	163,566	240,269	10,651	229,618
Total Intragovernmental Liabilities	$ 76,615	$ 424	$ 11,755	$ 63,671	$ 516,629	$ 669,094	$ 248,325	$ 420,769
Accounts Payable (Note 9)	278,205	2,677	121,646	150,818	1,209,204	1,762,550	0	1,762,550
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 13)	$ 81,354	$ 299	$ 12,530	$ 21,994	$ 126,127	$ 242,304	$ 0	$ 242,304
Environmental Liabilities (Note 10)	0	0	0	0	0	0	0	0
Loan Guarantee Liability	0	0	0	0	0	0	0	0
Other Liabilities (Note 11 and Note 12)	32,383	(6)	8,896	15,561	63,519	120,353	0	120,353
TOTAL LIABILITIES	**$ 468,557**	**$ 3,394**	**$ 154,827**	**$ 252,044**	**$ 1,915,479**	**$ 2,794,301**	**$ 248,325**	**$ 2,545,976**
NET POSITION								
Unexpended Appropriations (Note 14)	$ 0	$ 0	$ 0	$ 0	$ 1,556,200	$ 1,556,200	$ 0	$ 1,556,200
Cumulative Results of Operations	161,004	(3,246)	(17,154)	48,271	7,654,340	7,843,215	0	7,843,215
TOTAL NET POSITION	**161,004**	**(3,246)**	**(17,154)**	**48,271**	**9,210,540**	**9,399,415**	**0**	**9,399,415**
TOTAL LIABILITIES AND NET POSITION	**$ 629,561**	**$ 148**	**$ 137,673**	**$ 300,315**	**$11,126,019**	**$12,193,716**	**$ 248,325**	**$11,945,391**

The accompanying notes are an integral part of these statements

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2000
($ in Thousands)

	FY 2000
BUDGETARY RESOURCES	
Budget Authority	$ 4,243,093
Unobligated Balance - Beginning of Period	204,595
Net Transfers Prior-Year Balance, Actual	(292,300)
Spending Authority from Offsetting Collections	14,879,902
Adjustments	(113,415)
Total Budgetary Resources	**$ 18,921,875**
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	$17,495,370
Unobligated Balance - Available	1,426,505
Unobligated Balance - Not Available	0
Total, Status of Budgetary Resources	**$ 18,9211,975**
OUTLAYS	
Obligations Incurred	$ 17,495,370
Less: Spending Authority from Offsetting Collections and Adjustments	(14,879,919)
Obligated Balance, Net - Beginning of Period	5,144,929
Obligated Balance Transferred, Net	0
Less: Obligated Balance, Net - End of Period	(6,621,808)
Total Outlays	**$ 1,138,572**

The accompanying notes are an integral part of these statements.

See Note 1 and 17

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2000
($ in Thousands)

	Distribution Depots	Information Services	Document Automation Production Service	Reutilization & Marketing	Supply Management	Combined Total	Eliminations	2000 Consolidated
Program Costs								
Intragovernmental	$ 381,969	$ 1,083	$ 50,629	$ 98,275	$ 1,288,650	$ 1,820,606	$ 881,587	$ 939,019
With the Public	972,699	(5,944)	343,610	251,1331	3,397,935	14,959,433	0	14,959,433
Total Program Cost	1,354,668	(4,861)	394,239	349,408	14,686,585	16,780,039	881,587	15,898,452
(Less:Earned Revenue)	$ (1,309,827)	$ (4,390)	$ (372,7260)	$ (169,778)	$ (13,219,367)	$ (15,076,088)	$ (881,587)	$ (14,194,501)
Net Program Costs	44,841	(9,251)	21,513	179,630	1,467,218	1,703,951	0	1,703,951
Costs Not Assigned to Programs	0	0	0	0	0	0	0	0
(Less:Earned Revenue not attributable to Programs)	0	0	0	0	0	0	0	0
Net Costs of Operations	**$ 44,841**	**$ (9,251)**	**$ 21,513**	**$ 179,630**	**$ 1,467,218**	**$ 1,703,951**	**$ 0**	**$ 1,703,951**

The accompanying notes are an integral part of these statements.

See Note 1 and 15

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2000
($ in Thousands)

	Distribution Depots	Information Services	Document Automation Production Service	Reutilization & Marketing	Supply Management	2000 Combined	2000 Eliminations	2000 Consolidated
Net Cost of Operations	$ 44,841	$ (9,251)	$ 21,513	$ 179,630	$ 1,467,220	$ 1,703,953	$ 0	$ 1,703,953
Financing Sources (other than exchange revenues)								
Appropriations Used	0	0	0	0	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	0	0	0	0	0	0
Donations - Nonexchange Revenue	0	0	0	0	0	0	0	0
Imputed Financing (Note 16)	40,270	53	6,393	8,803	55,339	110,858	0	110,858
Transfers - in	2,203	0	369	133,592	97,636	233,800	(233,745)	55
Transfers - out	(91,122)	(10,966)	53,895	(8,486)	(640,659	(697,338)	(233,745)	(463,593)
Other	93,710	0	89	(36,714)	167,615	224,700	0	224,700
Total Financing Sources (other than Exchange Revenues)	$ 45,061	$ (10,913)	$ 60,746	$ 97,195	$ (320,069)	$ (127,980)	$ 0	$ (127,980)
Net Results of Operations	$ 220	$ (1,662)	$ 39,233	$ (82,435)	$ (1,787,289)	$ (1,831,933)	$ 0	$ 1,831,933)
Prior Period Adjustments (Note 16)	53,428	21,116	23,008	14,302	63,042	174,896	0	174,896
Net Change in Cumulative Results of Operations	$ 53,648	$ 19,454	$ 62,241	$ (68,133)	$ (1,724,247)	$ (1,657,037)	$ 0	$ (1,657,037)
Increase (Decrease) in Unexpended Appropriations	0	0	0	0	1,556,200	1,556,200	0	1,556,200
Change in Net Position	53,648	19,454	62,241	(68,133)	(168,047)	(100,837)	0	(100,837)
Net Position-Beginning of the Period	**$ 107,357**	**$ (22,699)**	**$ (79,395)**	**$ 116,404**	**$ 9,378,585**	**$ 9,500,252**	**$ 0**	**$ 9,500,252**
Net Position-End of the Period	**$ 161,005**	**$ (3,245)**	**$ (17,154)**	**$ 48,271**	**$ 9,210,538**	**$ 9,399,415**	**$ 0**	**$ 9,399,415**

The accompanying notes are an integral part of these statements.

See Note 1 and 16

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2000
($ in Thousands)

	Distribution Depots	Information Services	Document Automation Production Service	Reutilization & Marketing	Supply Management	2000 Combined
BUDGETARY RESOURCES						
Budget Authority	$ 0	$ 0	$ 120,974	$ 160,417	$ 3,961,702	$ 4,243,093
Unobligated Balance - Beginning of Period	130,660	(5,194)	22,580	52,117	4,432	204,595
Net Transfers Prior-Year Balance, Actual	0	0	0	0	(292,300)	(292,300)
Spending Authority from Offsetting Collections	1,336,066	(259)	280,463	165,936	13,097,696	14,879,902
Adjustments	(113,431)	0	0	0	16	(113,415)
Total Budgetary Resources	$ 1,353,295	$ (5,453)	$ 424,017	$ 378,470	$ 16,771,546	$ 18,921,875
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	$ 1,278,888	$ (2,711)	$ 394,711	$ 327,869	$ 5,496,613	$ 17,495,370
Unobligated Balances - Available	74,407	(2,742)	29,306	50,601	1,274,933	1,426,505
Unobligated Balances - Not Available	0	0	0	0	0	0
Total, Status of Budgetary Resources	$ 1,353,295	$ (5,453)	$ 424,017	$ 378,470	$ 16,771,546	$ 18,921,875
OUTLAYS						
Obligations Incurred	$ 1,278,888	$ (2,711)	$ 394,711	$ 327,869	$ 15,496,613	$ 17,495,370
Less: Spending Authority from Offsetting Collections and Adjustments	(1,336,066)	259	(280,463)	(165,936)	(13,097,713)	(14,879,919
Obligated Balance, Net - Beginning of Period	286,900	9,694	5,705	148,669	4,693,961	5,144,929
Obligated Balance Transferred, Net	0	0	0	0	0	0
Less: Obligated Balance, Net - End of Period	(318,641)	(3,865)	(64,881)	(185,867)	(6,048,554)	(6,621,808)
Total Outlays	$ (88,919)	$ 3,377	$ 55,072	$ 124,735	$ 1,044,307	$ 1,138,572

The accompanying notes are an integral part of these statements.

See Note 1 and 18

DEPARTMENT OF DEFENSE
Defense Logistics Agency Working Capital Fund
COMBINING STATEMENT OF FINANCING
As of September 30, 2000
($ in Thousands)

	Distribution Depots	Information Services	Document Automation Production Service	Reutilization & Marketing	Supply Management	2000 Combined
OBLIGATIONS AND NONBUDGETARY RESOURCES:						
Obligations Incurred	$ 1,278,888	$ (2,711)	$ 394,711	$ 327,869	$ 15,496,613	$ 17,495,370
Less: Spending Authority from Offsetting Collections and Adjustments	(1,336,066)	259	(280,463)	(165,936)	(13,097,713)	(14,879,919)
Donations Not in the Entity's Budget	0	0	0	0	0	0
Financing Imputed for Cost Subsidies	40,270	53	6,393	8,803	55,339	110,858
Transfers-In (Out)	0	0	0	0	0	0
Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0	1,305	1,305
Nonexchange Revenue Not in the Entity's Budget	0	0	0	0	0	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total Obligations as Adjusted and Nonbudgetary Resources	$ (16,908)	$ (2,399)	$ 120,641	$ 170,736	$ 2,455,544	$ 2,727,614
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS:						
Change in Amount of Goods, Services, and Benefits Ordered but Not	$ (40,650)	$ 5,883	$ (1,243)	$ 10,616	$ (1,393,699)	$ (1,419,093)
Yet Received or Provided (Increases)/Decreases			0			
Change in Unfilled Customer Orders	26,239	(4,596)	(74,104)	(3,842)	177,837	121,534
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(10,696)	(2,161)	4,279	(11,531)	4,552	(15,557)
Financing Sources that Fund Costs of Prior Periods	14,984	(6,308)	765	4,148	17,040	30,629
Collections that Decrease Credit Program Receivables or Increase	0	0	0	0	0	0
Credit Program Liabilities		0				
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0	0	0
Other - (Increases)/Decrease	0	6	(35,042)	188	174,288	139,440
Total Resources That Do Not Fund Net Costs of Operations	$ (10,123)	$ (7,176)	$ (105,345)	$ (421)	$ (1,019,982)	$ (1,143,047)
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES						
Depreciation and Amortization	$ 71,872	$ $324	$ $4,893	$ $9,316	$ $33,684	$ $120,089
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0	0	0
Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0	0	0
Loss of Disposition of Assets	0	0	0	0	(6,850)	(6,850)
Other - (Increases)/Decrease	0	0	0	0	0	0
Total Costs That Do Not Require Resources	71,872	$324	$4,893	$9,316	$26,834	$113,239
FINANCING SOURCES YET TO BE PROVIDED	0	0	$1,324	$0	$4,823	$6,147
NET COST OF OPERATIONS	**$ 44,841**	**$ (9,251)**	**$ 21,513**	**$ 179,631**	**$ 1,467,219**	**$ 1,703,953**

The accompanying notes are an integral part of these statements.

See Note 1 and 18

Notes to Principal Financial Statements

Defense Working Capital Fund

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Note 1. Significant Accounting Policies

Basis of Presentation

These financial statements were prepared to report the financial position and results of the operations portion of the Defense Logistics Agency (DLA) that are financed by the Defense-wide Working Capital Fund (WCF), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other pertinent legislation. It does not include portions of DLA operations funded through direct or general appropriations; or the Stockpile, which is a non-working capital revolving fund. The financial statements have been prepared by the Defense Finance and Accounting Service (DFAS) from DLA and DFAS books and records according to the "Department of Defense Financial Management Regulation" (DoDFMR) as adapted from the Office of Management and Budget (OMB) Bulletin No. 97- 01, "Form and Content of Agency Financial Statements," and to the extent possible the Statements of Federal Financial Accounting Standards (SFFASs). The DLA financial statements are in addition to other financial reports prepared by DLA and DFAS pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

DLA is unable to fully implement all elements of the SFFASs due to limitations of its financial management processes and systems, including non-financial feeder systems and processes. Preparing reliable financial statements also depends on the adequacy of the systems and processes used by DFAS, which are also not fully compliant with Federal accounting and system requirements. Reported values and information for DLA major asset and liability categories are derived largely from non-financial feeder systems, such as acquisition, property, and logistic systems. These systems were designed to support reporting requirements that focused on asset accountability and funds control rather than to support preparation of financial statements. As a result, DLA has not fully implemented certain aspects of SFFASs. DLA and DFAS continue to implement process and system improvements to address the system and process limitations as they relate to complying with the SFFASs.

Mission of the Reporting Entity

The DLA mission is to provide the best value logistics solution to meet the needs of America's armed forces around the clock and around the world, in times of peace, national emergency, and war. Support begins with joint planning for parts used in new weapons systems, extends through production and contract support, and concludes with the disposal of materiel that is obsolete, worn out, or no longer needed. DLA provides supply support, technical/ logistics services and quality support to all branches of the military. The services it provides fall into the following Defense WCF activity groups: Supply Management, Distribution, Reutilization and Marketing, Document Automation and Production, and Information Services.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonenity accounts are assests that are held by an entity but are not available for use in the operation of the entity.

For FY 00, DLA's financial management systems were unable to meet all the requirements for full accrual accounting. Efforts are underway to bring the DoD systems into compliance with all elements of the SFFASs.

Budgets and Budgetary Accounting

DLA received its initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and used those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. Receipts derived from operations generally are available in their entirety for use without further congressional action.

The Defense-wide WCF operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Fund builds on revolving fund principles previously used for industrial and commercial type activities. The Defense-wide WCF is also used to fund the operations of other Defense Agencies.

Basis of Accounting

DLA generally records transactions on an accrual basis of accounting as required by the SFFASs. However, some of the financial and non-financial feeder systems and processes used to prepare the financial statements are not designed to collect and record financial information on the accrual accounting basis. Efforts are underway to determine the actions required to bring all of its financial and non-financial feeder systems and processes into compliance with all elements of the SFFASs. Until such time that all of the accounting processes and systems are updated to collect and report financial information as required by the SFFASs, some of the DLA's financial data will be based on budgetary data, data calls, and derived from non-financial feeder systems

Revenues and Other Financing Sources

Exchange revenue is recognized at the point when rendered services are completed and billed, or at the point where inventory items are sold. Certain distribution activity group revenues are recognized based on the actual workload for the period. These revenues may be billed up to two months after work is performed. These financial statements include an adjustment to accrue these billings. Revenue is not earned to offset costs incurred by the DRMS activity group's transfer and donation programs.

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because some of the financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses and accounts payable. Expenditures for capital and other long- term assets are not recognized as expenses until consumed in DLA operations

Certain expenses, such as annual and military leave earned but not taken, are not funded when accrued. Such expenses are financed in the period in which payment is made.

Accounting for Intragovernmental Activities

DLA, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency is a stand-alone entity.
DLA's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. DLA financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

DLA civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while the Military Retirement System (MRS) covers military personnel. Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DLA funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM).

DLA recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization column of the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within DLA or between DLA and other DoD activities and other federal agencies must be eliminated. However, the DoD, like the rest of the federal government cannot accurately identify all intragovernmental transactions by customer. For FY 00, the DLA provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and and DFAS adjusted the buyer- side records to recognize unrecorded costs and accounts payable. Internal DoD intragovernmental balances were then eliminated to the extent possible. In addition, the DFAS implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

Each year, the DoD Components sell assets to foreign governments under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, the DoD has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U. S. Government. Customers are required to make payments in advance.

Funds with the U.S. Treasury and Cash

The financial resources of the Defense-wide WCF are maintained in U. S. Treasury accounts. Cash collections, disbursements, adjustments, and transfers are processed worldwide at DFAS, Military Services, General Services Administration (GSA), U. S. Army Corps of Engineers (USACE) and Public Works disbursing stations, and by the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U. S. Treasury on check issues, interagency transfers and deposits. Additionally, the DFAS centers submit reports to Treasury, by appropriation, on collections received and disbursements issued. The Treasury records this information to the applicable appropriation FBWT Account which they maintain. DLA's funds are maintained at the Treasury within appropriation 97 X 4930.005. Periodically, OUSD authorizes cash transfers between services within the DoD WCF as well as with general fund corpuses. These transfers are recorded in DLA's FBWT preclosing financial statements, but since DWCF reporting entities do not maintain FBWT at the activity level, these amounts are transferred to the component financial statements maintained at the DoD level (97 X 4930.005). These amounts are then included with other Defense Agency funds in this appropriation. Material disclosures are provided at note 3.

Foreign Currency

DLA conducts a portion of its operations overseas within the Defense-wide WCF. Any gains or losses incurred from Foreign Currency Fluctuation are accounted for during the rate development process.

Accounts Receivable

As presented in the Balance Sheet, accountsreceivable include accounts, claims, and refunds receivable from other federal entities or from the public and are considered entity assets. The DoD does not recognize an allowance for estimated uncollectable amounts from another federal agency. Claims against another federal agency will be resolved between the agencies. For public accounts receivable DLA does not anticipate uncollectable accounts and prefers to recognize them in the periods in which accounts are determined to be uncollectable. In addition, DLA material disclosures are provided at note 5.

Inventories and Related Property

Inventories are reported at approximate historical cost based on Latest Acquisition Cost (LAC) adjusted for holding gains and losses. The LAC method is used because inventory data is maintained in logistics systems designed for materiel management purposes. For the most part, these systems value inventory at selling price or LAC and the reported amounts must be adjusted. DFAS uses a formula to estimate the approximate historical cost of DLA inventories. The related property portion of the account includes OM&S, which is generally valued at standard price. Material disclosures related to inventory and related property are provided at note 9.

General Property, Plant and Equipment (PP&E)

General Property Plant and Equipment (PP&E) are valued at historical acquisition cost plus capitalized renovations or improvements. General PP&E assets are capitalized at cost if the acquisition is $100 thousand or more and has a useful life of two or more years. All General PP&E other than land is depreciated on a straight-line basis. USC Title 10 prohibits DoD Agencies from owning property; therefore DoD has expanded the recognition criteria of SFFAS No. 6 to more accurately report the financial position of its member agencies. According to DoD regulations, ownership of an asset is not a prerequisite to asset recognition. DoD FMR Vol. 4, Chap. 6, states that legal ownership usually, but not always, is the determinant factor when determining which DoD component recognizes a particular PP&E asset for accounting and reporting purposes in financial statements. Asset recognition that member DoD agencies that gain the most benefit by virtue of space usage should capitalize the asset as General PP&E on their balance sheet.

Equipment is recorded at acquisition cost. In those instances where original acquisition cost of General PP&E were not available, estimates have been used. Such estimates are based on either (1) the cost of similar assets at the time of acquisition or (2) the current cost of similar assets discounted for inflation to the time of acquisition. Material disclosures are provided at note 10.

Advance and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

Leases

DLA Activity Groups do not have capital leases or lease liabilities

Other Assets

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 these long- term contracts can cause, DLA provides financing payments. One type of financing payment that DLA makes is based on percentage of the work completed. In accordance with the SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” such payments are treated as construction in process and are reported on the General PP& E line. In addition, based on the provision of the Federal Acquisition Regulations, DLA makes financing payments under fixed price contracts that are not based on a percentage of completion. DLA reports these financing payments as advances or prepayments in the “Other Assets” line item because they become a DLA liability only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, DLA is not obligated to reimburse the contractor for its costs and the contractor is liable to repay DLA for the full amount of the advance.

Contingencies and Other Liabilities

The SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to DLA. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when it is probable that the future event or events will confirm the loss or the incurrence of a liability for the reporting entity and the amount of loss 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 that a loss or additional loss will be incurred. Examples of loss contingencies include the collectability of receivables, pending or threatened litigation, possible claims and assessments. DLA’s loss contingencies arising from pending or threatened litigation or claims and assessments occur due to events such as vehicle accidents, property or environmental damages, and contract disputes.

Accrued Leave

Civilian annual leave and military leave are accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual and military leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Net Position

DLA's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred. Beginning in FY98, net position included the cumulative amount of transfers in and out of assets without reimbursement. In addition, there is no longer a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E, or a separate amount shown for future funding requirements. Cumulative results of operations for working capital funds represents the excess of revenues over expenses since fund inception, transfers of assets in and out without reimbursement since fund inception, less refunds to customers, and future funding requirements.

Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the DoD. Therefore, in the event treaties or other agreements are terminated and use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U. S. and the host country have been concluded to determine the amount to be paid the U. S. for such capital investments.

Comparative Data

For FY00, DLA will not present comparative financial statements due to the technical amendment to OMB Bulletin 97-01, Form and Content of Agency Financial Statements (dated September 11, 2000) which states that comparative data is permitted but not required.

Undelivered Orders

DLA records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods/ services have yet to be delivered.

Note 2. Nonentity Assets *(Amounts in thousands)*

1. Intragovernmental Nonentity Assets:		
A. Fund Balance with Treasury	$	0
B. Investments		0
C. Accounts Receivable		0
D. Other Assets		0
E. Total Intragovernmental Nonentity Assets		0
2. Nonfederal Nonentity Assets:		
A. Cash and Other Monetary Assets		0
B. Accounts Receivable		0
C. Loans Receivable		0
D. Inventory & Related Property		0
E. Other Assets	$	5,626
F. Total Nonfederal Nonentity Assets	$	5,626
3. Total Nonentity Assets	**$**	**5,626**
4. Total Entity Assets	**$**	**11,939,765**
5. Total Assets	**$**	**11,945,391**

6. Other Information:

The $5.6 million in nonentity assets represents bid collections received by the Defense Reutilization and Marketing Service (DRMS). The collections are received and accounted for in a suspense account. At the time the appropriate bid selection is made, these funds are returned to the bidder(s). For financial statement presentation these bid collections are shown as nonentity assets.

Note 3. Fund Balance with Treasury *(Amounts in thousands)*

1. Fund Balances:		
A. Appropriated Funds	$	0
B. Revolving Funds		0
C. Trust Funds		0
D. Other Fund Types		0
E. Total Fund Balances	$	0
2. Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	$	0
B. Fund Balance per DLA	$	0
C. Reconciling Amount	$	0
3. Explanation of Reconciliation Amount:		
4. Other Information Related to Fund Balance withTreasure		

Disbursements and Collections:

The Defense Working Capital Fund reporting entities do not maintain FBWT at the activity level. Current year disbursements and collections are transferred to component level. These transferred amounts will be included in the FBWT amounts reflected in the component column of the balance sheet. The disbursements and collections as reported on the Cash Management Report (CMR) are annotated below:

	Disbursements	Collections	Net Outlays
DLA Distribution Depots:	$ 1,452,141	$ 1,541,060	($ 88,919)
DLA Supply Management:	14,002,033	12,957,725	1,044,308
DLA Information Service:	17,133	13,755	3,377
DLA Printing Services:	435,313	380,242	55,071
DLA Reutilization & Marketing*	307,916	183,181	124,735
Total DLA WCF	**$ 16,214,536**	**$ 15,075,963**	**$ 1,138,572**

*Total Outlays for DRMS: In July 1999 DFAS-IN performed a file maintenance, which generated several Treasury adjustments against the 4930 appropriation. These adjustments were not included in the FY99 EOY Cash Management Report (CMR) for DRMS. A journal voucher was prepared to include these disbursements on the FY99 statements. During FY00 DFAS-IN cleared these adjustments and were charged to DRMS on the current year CMR. As a result current year outlays are overstated by $44.4 million. To offset the affect of the prior year adjustments to the CFO statement current year outlays were credited by $44.4 million and cumulative results were debited by the same amount.

Cash Transfers: DLA had cash transfers of $1.3 billion (net). These transfers were included in the fund balance transferred to component level. These cash transfers include the transfers to the Military Services in the form of consumable item transfers (CIT). For FY00 these transfers amounted to $292.3 million. In addition, DLA received an appropriation warrant for $1.6 billion for the purpose of supplementing the high cost of fuel.

Note 4. Accounts Receivable *(Amounts in thousands)*

	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables:	$ 846,981	N/A	$ 846,981
2. Nonfederal Receivables (From the Public):	137,050	0	137,050
3. Total Accounts Receivables:	**$ 984,031**	**$ 0**	**$ 984,031**

4. Allowance method

5. Other information:

Undistributed Collections:

The difference between collections reported on the CMR and the entity general ledger is referred to as undistributed collections. DoD FMR Volume 6B, Chapter 4, requires that undistributed collections be offset against an entity's Federal and Non-Federal general ledger balances. Because an analysis could not be performed to support the detail identification of these balances, a proration between Federal and Non-Federal accounts was used. The following table shows the amounts used to offset accounts receivable in each DLA activity group prior to recording appropriate buyer-seller elimination adjustments:

	A/R Per Activity Records	Undistributed Collections	Net A/R (Before Eliminations*)
Distribution Depots	$ 163,456	$ 1	$ 163,458
Supply Management	943,785	(23,047)	920,737
Information Services	127	0.00	127
Printing Service	91,580	12,734	104,314
Reutilization & Marketing	$ 40,953	($ 7,886)	$ 33,06
Total DLA WCF	**$ 1,239,901**	**$ (18,198)**	**$ 1,221,703**

** Note: Total eliminations for DLA WCF as reported on balance sheet are $237,674.*

Intragovernmental Accounts Receivable

DLA's stock fund systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Allocation of intra-DoD (Levels Two and Three) trading partner data is based on the percentage of funds recorded at the appropriation level for interfund reimbursement transactions posted on DLA's general ledgers. By design, the interfund system provides appropriations from which DLA's customers pay for the materiel bought from the Working Capital Funds. For FY00, 90 percent of gross reimbursable issues from DLA WCF to its customers within DoD was purchased through the interfund system. Therefore, the intergovernmental accounts receivable balances could not be reconciled with its trading partners. It should be noted that trading partner exchange data for non-DoD (Level One) trading partners is derived directly from related general ledger subsidiary accounts. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Note 5. Other Assets *(Amounts in thousands)*

1. Intragovernmental Other Assets:	
A. Advances and Prepayment	$ 529
B. Other Assets	0
C. Total Intragovernmental Other Assets	$ 529
2. Nonfederal Other Assets:	
A. Outstanding Contract Financing Payments1	85,916
B. Other Assets (With the Public)	$ 338,141
C. Total Nonfederal Other Assets	$ 524,057
3. Total Other Assets:	**$ 524,586**
4. Other Information Related to Other Assets	

Advances and Prepayments
Represent adjustments made as a result of intragovernmental unearned revenue being reported by seller-side trading partners. Per DoD FMR Volume 6B, Chapter 13, advances are established on the buyer side to eliminate the affect of unearned revenue being reported on the seller side.

Outstanding Contract Financing Payments
The DLA has outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the DLA becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DLA is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DLA for the full amount of the advance.

Other Assets (Public)
The $338.2 million in other assets includes $304.9 million thousand for military and non-military equipment not in use, $5.6 million in bid collections received by DRMS, $.6 million for Distribution Depots other assets, $19.0 million in reparable inventory for Supply Management, $7.1 million for items on loan to other government agencies, and $1.0 million in travel advances.

Note 6. Inventory and Other Related Property *(Amounts in thousands)*

1. Inventory, Net (Note 9.A.)	$ 9,486,394
2. Operating Materials & Supplies, Net (Note 9.B.)	11,731
3. Stockpile Materials, Net (Note 9.C.)	0
4. Forfeited Property	0
5. Goods Held Under Price Support and Stabilization Programs	0
6. Total	**$ 9,498,125**

Note 6A. Inventory, Net *(Amounts in thousands)*

	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventories Categories:				
A. Available and Purchased or Resale	$ 8,113,485	$(639,164)	$7,474,321	LAC
B. Held in Reserve for Future Sale	1,828,911	0	1,828,911	LAC
C. Held for Repair	12,396	0	12,396	LAC
D. Excess, Obsolete, and Unserviceable	170,766	0	170,766	NRV
E. Raw Materials	0	0	0	0
F. Work in Process	0	0	0	0
G. Total	**$10,125,558**	**$(639,164)**	**$9,486,394**	

Legend for Valuation Methods:
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost

2. Restrictions of Inventory Use, Sale or Disposition:
Inventory Held in Reserve for Future Sale - This category includes inventory held for research or reclassification. These inventory items are held until final disposition and are not available for immediate sale.

War Reserve Materials - War reserve material includes fuel and subsistence items that are considered restricted. The value of war reserve material through FY 2000 is $ 1.6 billion.

3. Definitions of Columns 1 – 3 Titles: Column 1 represents the standard value used for inventory transactions in the financial system. Column 2 is the total difference between standard inventory values and either historical cost or net realizable value. Column 3 is approximate historical cost or net realizable value.

4. Other Information:
Inventory Valuation: Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, the timeliness at which this information is provided creates issues regarding the categorization of Inventory as being held for use, held in reserve for future use, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Inventories are valued at (1) approximate historical cost in accordance with SFFAS Number 3, "Accounting for Inventory and Related Property", and (2) Latest Acquisition Cost (LAC) as required by DoD accounting policies. The LAC method provides that the last representative invoice price shall be applied to all like units held, including units acquired through donation, non-monetary exchange, and returns from end use or reutilization. Generally, LAC is determined by subtracting the appropriate surcharges from the standard cost to arrive at the price most recently paid for a carried item. In prior years (FY92-96), gains or losses that resulted from valuation changes for inventory items were immediately recognized and reported in the operating results in the Statement of Net Cost as a cost of goods sold. Official accounting guidance requires that these amounts be recognized only upon the sale or disposal of material, rather than as the price variance occurs. Therefore, an allowance account was established on the financial statements to display unrealized holding period gains and losses. This allowance account is not under general ledger control in the individual commodity's trial balance, but is calculated and compiled on a spreadsheet application approved by the Office of the Under Secretary of Defense Comptroller and DFAS-Arlington. The reason for the allowance account is to provide an accurate representation of inventory at historical cost.

Holding Gains and Losses: Significant adjustments occurred in all inventory-related gain and loss accounts during the fiscal year. These adjustments were primarily the result of revised and improved program logic designed to reconcile SAMMS inventory-location balances with the Distribution Standard System (DSS) inventory-location balances. Additionally, physical inventories unrelated to SAMMS/DSS incompatibilities have been performed which resulted in adjustment transactions. The net result of these transactions reflects the improved accuracy in SAMMS inventory qualities and dollar values.

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

Inventory Categories

Available and Purchased for Resale: This category of inventory includes most supply system material that is in an issuable condition. This category also includes intransit inventory from commercial and government suppliers. General ledger accounts are used to record the initial acceptance of inventory items when title has passed but the items have not been received and accepted into inventory.

Inventory Held for Repair: These are inventory items that are not in a condition to be issued (but not beyond economical repair) and are awaiting repair before they are eligible for sale.

Excess, Obsolete and Unserviceable: This category consists of items that are determined to be beyond economic and contingency retention stock levels and, as a result, are reported as potential reutilization/disposal material. This category also includes inventory that is no longer needed due to changes in technology, laws, customs or operations. Unserviceable items are items not expected to survive repair after a technical evaluation at a maintenance activity is performed. It also includes damaged inventory that is not economical to repair. These assets are written down to its net realizable value (1.8%) according to DoD guidance. The remaining portion is expensed and included in the calculation of unrealized holding period gains and losses. These adjustments are used for consolidated reporting purposes only and are not included on the individual commodity general ledgers.

Reutilization and Marketing: DRMS has $133.9 million in property disposal inventory and is included in inventory category excess, obsolete or unserviceable.

Note 6B. Operating Materials and Supplies, Net *(Amounts in thousands)*

	OM&S Amount	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories:				
A. Held for Use	$11,731	$0	$11,731	
B. Held in Reserve for Future Use	0	0	0	
C. Held for Repair	0	0	0	
D. Excess, Obsolete, and Unserviceable	0	0	0	
E. Total	**$11,731**	**$0**	**$11,731**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost   *SP = Standard Price*

Adjusted for holding gains and losses   *AC = Actual Cost*

There are currently no restrictions on the use, sale, or disposition of operating materials and supplies.

3. Definitions of Columns 1- 3 Titles: Column 1 represents the standard value used for OM&S transactions in the financial system. Column 2 is the total difference between standard OM&S values and either historical cost or net realizable value. Column 3 is approximate historical cost or net realizable value.

4. Other Information: DAPS Operating Materials and Supplies (OM&S) are composed primarily of paper and toner, as well as CD Rom disks. DAPS uses an assorted variety of paper, in size, color, and texture/weight. These materials and supplies are consumed in the production of end products for the DAPS customers, and continued improvements to the automated production of electronic documents are produced via CD Rom disks.

Operating Materials and Supplies (OM&S) data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the Statement of Federal Financial Accounting Standard (SFFAS) Number 3, "Accounting for Inventory and Related Property". In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the completeness and existence of the OM&S quantities used to derive the values reported on the financial statements.

DLA uses the purchase method of accounting for OM&S in situations where it is more cost beneficial than the consumption method. Current financial and logistic systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD has reached an agreement with the Office of Management and Budget (OMB), the General Accounting Office (GAO), and the DoD Inspector General (DoDIG) to move to the consumption method of accounting for OM&S in future years. Based on this agreement, the DoD, in consultation with its auditors, will (1) develop a framework for conducting cost-benefit analyses for use in determining whether the consumption method is cost beneficial for selected instances of OM&S; (2) develop specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method; (3) develop functional requirements for feeder systems to support the consumption method; and (4) identify feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However, for fiscal year 2000, significant portions of DLA's OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or there is a disagreement with the audit community on what constitutes an item being in the hands of an end user. OM&S held for sale are valued using the weighted-average method.

Operating Materials & Supplies (OM&S) Valuation: The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, the timeliness at which this information is provided creates issues regarding the categorization of OM&S as held for use, held in reserve for future use, held for repair, or excess, obsolete, and unserviceable. Furthermore, past audit results have led to uncertainties pertaining to the completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

The DLA attempts to use the consumption method of accounting for OM&S unless the DLA believes the OM&S to be in the hands of the end user for use in normal operations. As stated above, current financial and logistics systems can not fully support the consumption method. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method. However, for fiscal year (FY) 2000, significant portions of the DLA OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or because management believes the items to be in the hands of the end user. In some cases, the auditors disagree with the Department's determination that the items are in the hands of the end user.

in normal operations, or (3) it is cost-beneficial to expense OM&S when purchased (purchase method). The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, and (3) identifying feeder systems that are used to manage OM&S items and develop plans to revise those systems to support the consumption method.

However, for fiscal year (FY) 2000, significant portions of the DLA OM&S were reported under the purchase method because either the systems could not support the consumption method of accounting or because management believes the items to be in the hands of the end user. In some cases, the auditors disagree with the Department's determination that the items are in the hands of the end user.

Note 6C. Stockpile Materials, Net *(Amounts in thousands)*

Although DLA does not have any stockpile materials it is not managed by the Defense Working Capital Fund.

Note 7. General PP&E, Net *(Amounts in thousands $)*

	Depreciation/ Amortization Method	Service Life	Acquisition Value	Depreciation Amortization	Net Book Value
1. Major Asset Classes:					
A. Land	N/A	N/A	0	N/A	0
B. Buildings, Structures, Facilities	S/L	20	$ 1,751,967	$ (1,123,569)	$ 628,398
C. Leasehold Improvements	S/L	5	0	0	0
D. Software	S/L	10	206,060	(180,231)	25,829
E. Equipment	S/L	10	510,096	(415,131)	94,965
F. Assets Under Capital Lease[1]	S/L	0	0	0	0
G. Construction-in-Progress	N/A	N/A	189,457	N/A	189,457
H. Other			0	0	0
I. Total General PP&E			**$ 2,657,580**	**$ (1,718,931)**	**$ 938,649**

Legend for Valuation Methods:
S/L = Straight Line *N/A = Not Applicable*

Real Property in the Hands of Contractors: The value of DLA General Property, Plant and Equipment (GPP&E) real property in the possession of contractors is included in the values reported above for the major classes of Land and Structures, Facilities, and Leasehold Improvements. The value of GPP&E personal property (Major Classes of Software and Equipment) in the possession of contractors is not included in the values reported above. The DoD presently is reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information. The DoD contracted with two certified public accounting firms to obtain an independent assessment of the cost information maintained as well as the reliability of the systems for the existence and completeness of these assets. As of the publication date of these statements, the contractor's assessment of DLA's GPP&E has not been finalized.

Reconciliation of General Ledger and Property System Balances: DLA is in the process of transferring and accounting for all of its property to the Defense Property Accountability System (DPAS). The estimated completion date of this transformation is March 2001. Until all property can be accounted for in DPAS reconciliation between the property and accounting systems can not be adequately accomplished. DLA is in the process of reviewing and validating the high dollar amount of equipment not in use, which currently represents about 25 percent of their property.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM): The value of DLA GFM and CAM in the hands of contractors is generally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems. However, preliminary results of the Department's review have indicated that the value of non-fully depreciated GPP&E personal property in the possession of contractors that would be reported on the DLA financial statements is immaterial in relation to the Department's total assets.

Note 8. Liabilities Not Covered *(Amounts in thousands)*

1. Intragovernmental Liabilities:		
A. Accounts Payable	$	0
B. Debt		0
C. Environmental Liabilities		0
D. Other	$	49,473
E. Total Intragovernmental Liabilities	$	49,473
2. Nonfederal Liabilities:		
A. Accounts Payable	$	27,541
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities		242,304
C. Environmental Liabilities		0
D. Loan Guarantee Liability		0
E. Other Liabilities		95,079
F. Total Nonfederal Liabilities	$	364,924
3. Total Liabilities Not Covered b Budgetary Resources:		**414,397**
4. Total Liabilities Covered by Budgetary Resources:	**$**	**2,131,579**
5. Total Liabilities:	**$**	**2,545,976**

Reporting Liability Pertaining to Federal Employees Compensation Act (FECA): DLA's actuarial liability for worker's compensation benefits is developed by the Department of Labor (DoL) and provided to DLA at the end of the 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 payment patterns are then discounted to the present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost-of-living adjustments and medical inflation factors are also applied to the calculation of projected future benefits.

The FY99 actuarial amount for the DLA was applied in total (general funds and WCF) against the WCF. Therefore, in FY00, a portion of the FY99 FECA actuarial liability was recomputed and redistributed appropriately to the DLA general funds.

Other Intragovernmental Liabilities: The $49.4 million intragovernmental liability represents the FY2000 unfunded portion of the FECA liability.

Other Nonfederal Liabilities: Represents the unfunded portion of the annual leave liability

Note 9. Accounts Payable *(Amounts in thousands)*

	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
1. Intragovernmental	$ 191,151	0	$ 601,673
2. With the Public:	1,762,550	0	1,762,55
3. Total	**$ 1,953,701**	**0**	**$ 1,953,701**

Undistributed Disbursements: The difference between disbursements reported on the CMR and the entity general ledger is referred to as undistributed disbursements. Current guidance requires that undistributed disbursements be offset against an entity's Federal and Non-Federal general ledger balances. Because an analysis could not be performed to support the detail identification of these balances, a proration between Federal and Non-Federal accounts was used. The following table shows the amounts used to offset accounts payable in each DLA activity group:

	A/P Per Activity Records	Undistributed Disusement	Total
Distribution Depots	$ 340,134	$ (5,384)	$ 334,750
Supply Management	2,087,629*	(525,362)	1,562,267
Information Services	4,594	(1,560)	3,034
Printing Service	122,355	(8,173)	130,528
Reutilization & Marketin	163,268	(2,470)	160,798
Total DLA WCF	**$ 2,717,918**	**$ (526,604)**	**$ 2,191,377**

***Note:** Supply Management Operations Accounts Payable: Includes $5.9 million and carryover from the transfer in of DLA Pacific in FY95. The carryover was the result of refund receivable not included in the obligated amount from that fiscal year.

Intragovernmental Accounts Payable: For the majority of buyer-side transactions, DLA systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the intragovernmental accounts payable balances could not be reconciled with its trading partners. Per DoD FMR Volume 6B, Chapter 13, DLA's intragovernmental accounts payable totals were adjusted to agree with the seller's accounts receivable data. However, with respect to major fiduciary balances with the Office of Personnel Management (OPM) and the Department of Labor (DoL), a reconciliation was not completed. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Recording Buyer Side Intra-DoD Transaction Adjustments: DLA's intragovernmental accounts payable (buyer-side) amount was in excess of the accounts receivable reported by the seller-side. Per DoD FMR Volume 6B, Chapter 13, the excess buyer-side accounts payable balance was reclassified from intragovernmental to public. The amount of this reclassification for DLA was $440.3 million. This reclassification accounts for the dramatic increase in public accounts payable from FY99. Conversely, it also supports the decrease in intragovernmental accounts payable from FY99.

Note 10. Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities *(Amounts in thousands)*

Department of Defense Financial Management Regulation Guidance on environmental liabilities is vague as to what should be reported. DLA records environmental liabilities that it is aware of as payable.

Note 11A Other Liabilities *(Amounts in thousands)*

	Current Liability	Noncurrent Liability	Total
1. Intragovernmental:			
A. Advances from Others	$ 172,226	$ 0	$ 172,226
B. Deferred Credits	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0
D. Resources Payable to Treasury	0	0	0
E. Disbursing Officer Cash	0	0	0
F. Nonenvironmental Disposal Liabilities:			
(1)ND PP&E (Non-nuclear)	0	0	0
(2)Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
G. Accounts Payable—Cancelled Appropriations	0	0	0
H. Judgment Fund Liabilities	0	**0**	**0**
I. Workman's Compensation Reimbursement to the Department of Labor	21,920	27,553	49,473
J. Capital Lease Liability	0	0	0
K. Other Liabilities	7,919	0	7,919
L. Total Intragovernmental Other Liabilities	**$ 202,065**	**$ 27,553**	**$ 229,618**
2. Nonfederal:			
A. Accrued Funded Payroll and Benefits .	$ 19,648	$ 0	$ 19,648
B. Advances from Others	0	0	0
C. Deferred Credits0	0	0	
D. Loan Guarantee Liability	0	0	0
E. Liability for Subsidy Related to Undisturbed Loans	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0
G. Temporary Early Retirement Authority0	0	0	0
H. Nonenvironmental Disposal Liabilities:			
(1) ND PP&E (Nonnuclear)0	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Other	0	0	0
I. Accounts Payable— Cancelled Appropriations	0	0	0
J. Accrued Unfunded Annual Leave	95,079	0	95,079
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0
L. Capital Lease Liability	0	0	0
M. Other Liabilities	5,626	0	5,626
N. Total Nonfederal Other Liabilities	$ 120,353	$ 0	$ 120,353
3. Total Other Liabilities	**$ 322,418**	**$ 27,553**	**$ 349,971**

Other Intragovernmental Liabilities: Represents the FY00 ending accrual amounts for DLA contributions for employees benefits and VSIP provided by the Office of Personnel Management (OPM).

Other Liabilities with the Public:
The $5.6 million in noncurrent liabilities with the public represents bid collections received by the Defense Reutilization and Marketing Service (DRMS). The collections are received and accounted for in the Suspense Account "97X6501.0001". At the time the appropriate bid selection is made, these funds are returned to the bidder(s). For financial statement presentation these bid collections are shown as both another asset (nonentity) and liability.

Judgment Fund Liabilities:
The Department of Treasury notified DLA of judgment claims made on behalf of DLA. However, the Department of Treasury did not provide adequate supporting documentation (contract numbers, disbursement vouchers, reimbursement contacts, submitting agency and description of claim) or a reasonable estimate of the amount due.

Of the claims submitted, DLA has adequate supporting documentation for 45 million dollars related to the Pride Oil judgment in the fuels business activity group. This amount has been posted as a funded judgment fund liability.

Disposal Liability:
Based upon the DLA interpretation of the SFFAS No. 5, a nonenvironmental disposal liability is recognized for the asset when management makes a formal decision to dispose of the asset. The Department's auditors disagree with this interpretation of the standard. Their interpretation is that the nonenvironmental liability recognition should begin at the time the asset is placed in service. This issue raised by the auditors is one that has government-wide implications for all agencies. Until the issue is resolved on a government-wide basis, the DoD continues to adhere to the explicit literal provisions of the SFFAS No. 5.

Workers' Compensation (FECA):
Workers' Compensation is comprised to two components; (1) the accrued liability which represents money owed for claims paid through the current fiscal year, and (2) the actuarial liability for approved compensation cases beyond the current year. Future workers' compensation estimates were generated from an application of actuarial procedures developed by the Department of Labor to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period. The accrued liability for FECA is shown above

Note 12. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Pending Litigation
"The DLA has a legal case pending concerning a grievance filed by local unions seeking retroactive Environmental Differential Pay because of exposure to asbestos. Management denied the grievance and the case was tried before an arbitrator in FY99. Post hearing briefs were submitted in FY00 and the arbitrator issued a decision denying the grievance and sustaining an award to one DLA and three Navy employees (which were paid in FY00). The Union filed exceptions to the arbitrator's award with the Federal Labor Relations Authority. The DLA cannot make a prediction of the outcome of labor management arbitration and cannot make a determination of the amount of the Federal Labor Relations Authority."

Note 13. Military Retirement Benefits and Other Employment Related Actuarial Liabilities *(Amounts in thousands)*

	Actiaral Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
1. Pension and Health Benefits:				
A. Military Retirement Pensions	$ 0		$ 0	$ 0
B. Military Retirement Health Benefits	0		0	0
C. Total Pension and Health Benefits	0		0	0
2. Other:				
A. Workmen's Compensation (FECA)	242,304	6.15.%	0	242,304
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. *[Enter Program Name]*	0		0	0
E. Total Other	$ 242,304		$ 0	$ 242,30
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	**$ 242,304**		**$ 0**	**$ 242,304**

4. Other Information Pertaining to Military Retirement Benefits and other Emploment -Related Actuarial Liabilities

Actuarial Cost Method Used:
Assumptions:
Market Value of Investments in Market-based and Marketable Securities:

Reporting of Military Retirement Benefits by MRF: The portion of the military retirement benefits actuarial liability applicable to the Defense Logistics Agency (DLA) is reported on the financial statements of the Military Retirement Fund.

Reporting of Liability Pertaining to Military Health Benefits Compensation: Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to DLA is reported only on the DoD Agency-wide financial statements.

Reporting Actuarial Liability Pertaining to Federal Employees Compensation Act (FECA). DLA's actuarial liability for workers' compensation benefits is developed by the Department of Labor 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 payment are then discounted to the present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits.

Note 14. Unexpended Appropriations *(Amounts in Thousands)*

1. Unexpended Appropriations:

A. Unobligated, Available	$ 1,556,200
B. Unobligated, Unavailable	0
C. Unexpended Obligations	0
D. Total Unexpended Appropriations	$ 1,556,200

2. Other Information Pertaining to Unexpended Appropriation:

Unobligated Balance, Available: Refer to footnote 3, appropriation transfer. A supplemental appropriation of $1.5B from OUSD(C) was provided during FY00 to offset rising fuel prices.

Note 15A. General Disclosures Related to the Statement of Net Cost *(Amounts in thousands)*

Disclosure related to the Statement of Net Cost

The table below highlights the changes related to DLA's FY 2000 operating costs:

FY00 DLA Net Operating Result

Activity Group	Sep 00 Net Operating Cost	Imputed Adj	FY99 FECA Liability	FY00 FECA Actuarial	FY00 FECA Advances	Reclass of Losses	Other Gains & Adjustments	Total Result	FY00 CFO Net Operating Result
Distribution Depots	$ (8,728)	$ 40,270	$ (2,021)	$ (2,374)	$ 17,694	$ -	$ -	$ 53,569	$ 44,841
Supply Mgt - Operations	1,512,282	55,339	(3,461)	(3,127)	27,433	(8,774)	49	67,459	1,579,741
Supply Mgt - Materiel	(111,869)	-	-	-	-	(653)	-	(653)	112,522)
Information Services	(8,948)	53	(414)	(7)	65	-	-	(303)	(9,251)
Printing Service	(14,500)	6,393	(346)	(243)	2,725	-	27,484	36,013	21,513
Reutilization & Marketing	168,295	8,803	(533)	(635)	4,784	(1,085)	-	11,334	179,629
Total DLA WCF	**$ 1,536,532**	**$ 110,858**	**$ (6,775)**	**$ (6,386)**	**$ 52,701**	**$ (10,512)**	**$ 27,533**	**$ 167,419**	**$ 1,703,951**

Explanation:

(1) Imputed Costs - Costs for imputed financing of CERS/FERS, Health and Life Insurance Benefits (See Note 16)

(2) FY99 FECA Adjustments: To transfer portion of FY99 FECA from WCF to General Funds

(3) FY00 FECA Liability (See Note 8)

(4) FY00 FECA Actuarial (See Note 13)

(5) Reclassification of Advances - Per DoD FMR Intragovernmental Advances that were not eliminated are expensed

(6) Other Gains and Losses: For Supply Mgt Operations this represents an expense recorded as the result of PBD 416For Printing Service, other gains and losses represent prior year deobligations made in the current which impact NOR

Note: Credit NOR indicates entity's revenues exceeded expenses. Credit adjustments indicate expenses were reduced.

Adjustments to Expenses and Revenues (DAPS): During the year joint effort between DAPS, DFAS Charleston and the DWAS Program Office identified $41 million in deobligations which occurred during the fiscal year. It was later determined that $27.4 million of these adjustments impacted prior year obligations (proprietary expenses).

Note 15B. Imputed Expenses *(Amounts in thousands)*

1. Civilian (CSRS/FERS) Retirement	$	46,019
2. Civilian Health		64,664
3. Civilian Life Insurance		175
4. Military Retirement Pension		0
5. Military Retirement Health		0
6. Judgment Fund/Litigation		0
7. Total Imputed Expenses	$	110,858

Note 15C. Reconciliation of Intragovernment Revenue

Disclosures Related to Intragovernmental Revenue and Expense:

19I. Reconciliation of Intragovernmental Revenue: The DLA's non-stockfund systems can capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. For DLA's stockfund systems, refer to footnote 4.

Note 16. Disclosures Related to the Statement of Changes in Net Position *(Amounts in thousands)*

1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:		
A. Changes in Accounting Standards	$	3,130
B. Errors and Omission in Prior Year Accounting Reports		172,360
C. Other Prior Period Adjustments		(594)
D. Total Prior Period Adjustments	**$**	**174,896**
2. Imputed Financing:		
A. Civilian CSRS/FERS Retirement	$	46,019
B. Civilian Health		64,664
C. Civilian Life Insurance		175
D. Military Retirement Pension		0
E. Military Retirement Health		0
F. Judgment Fund/Litigation		0
G. Total Imputed Financing	**$**	**110,858**

Changes in Accounting Standards: In previous years DLA established an accounts payable reserve for the Supply Management Materiel Commodities. The account was liquidated and shown as a prior period adjustment to the accumulated operating results.

Prior Period Adjustments Impacting Accumulated Operating Results (Errors and Omissions):

$103 million relates to corrections made as the result of redistributing a portion of the FY99 FECA actuarial liability to the DLA general funds.

$37.9 million are the result of adjustments made to prior year expenses and revenues in DAPS ($27,400 thousand) and Supply Management Operations ($10,500 thousand).

$6.6 million represents the correction of prior year health benefit and VSIP liabilities.

In Supply Management Operations accounts payable was understated on the FY99 statements. A ***$13.5 million*** adjustment was made to correct this omission.

In Information Services there were ***$1.3 million*** in disbursements that were erroneously charged to Supply Management. Corrections were made to record these against Information Services.

$ .6 million relates to the change in refunds receivable from the previous year.

$3.8 million relates to corrections made to the actual FECA liability and other miscellaneous adjustments.

Other Prior Period Adjustments: The $.5 million represents various adjustments made in the Distribution Depot activity group to record corrections made to prior year real property maintenance expenses.

Imputed Financing: The imputed financing cost factors are provided by the OPM to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD (P&R)) and the DFAS. The DFAS provides civilian employees base salary and number of employees electing health benefits by reporting entity to the OUSD (P&R). The OUSD (P&R) computes and validates the imputed expenses for civilian employee's retirement and other retirement benefits and provides it to the reporting components. The total imputed expenses for DLA civilian employee retirement and other civilian benefits is shown above.

Note 17A. Disclosures Related to the Statement of Budgetary Resources *(Amounts in thousands)*

1. Net Amount of Budgetary Resources Obligated for Undelivered at the End of the Period $7,411,294

2. Available Borrowing and Contract Authority at the End of the Period $5,851,993

Increase in Budget Authority from FY99:
The increase in budget authority from FY99 is primarily attributed to the $1.6 billion appropriation transfer received in Supply Management Materiel to offset the high costs of fuel. See Footnote 3 for more details.

Total Outlays for DRMS:
The DRMS outlays shown on the Statement of Budgetary Resources are $44.4 million less than outlays reported on the Cash Management Report. See Footnote 3 for further clarification.

Unearned Revenue in DRMS:
DRMS records unearned revenue for HW disposal contracts. These customers are billed monthly for disposal contract costs based on the obligated delivery order in the Base Operating Support System (BOSS). The disposal process can take up to one year to complete. The Inspector General's interpretation is that the actual point of disposal is the point when revenue should be recorded by DRMS. DRMS does not pay the contractors until they provide evidence of final disposal, at which time BOSS records the disbursement and passes an expense to DBMS. Proceeds are recorded as unearned revenue at the time HW customers are billed. The revenue becomes earned at the time the contractors are paid. Because unearned revenue impacts a proprietary account, adjustments need to be recorded on the budgetary side to ensure the Statement of Budgetary Resources is in agreement with the EOY SF133.

Transfers Impacting Budgetary Transfers: Includes the Consumable Item Transfers made to the military services.

Per direction from Office of Under Secretary of Defense (Comptroller) (Program/Budget) Director for Revolving Funds memoranda, funds were transferred among sub-numbered accounts .005, .003, .002, nd .001 as follows:

From 4930.005 to:

4930.003	$125,000
4930.002	61,600
4930.001	22,800
4930.003	82,900
Total	**$292,300**

Note 17B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

Other Information Related to Problem Disbursements and In-Transit Disbursements: The Defense Logistics Agency (DLA) has $14.8 million in problem and in-transit disbursements that represent disbursements of Working Capital Funds (WCF) that have been reported by disbursing stations to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. Problem and in-transit disbursements arise when various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. Efforts are underway to improve systems, resolve all previous problem disbursements and process all in-transit disbursements. As of September 30, 2000, these efforts have resulted in a substantial decrease in reported problem and in-transit disbursements since June 1995.

Other Information Related to Suspense/Budget Clearing Accounts: A concerted effort has been made to reduce balances in the suspense and budget clearing accounts, and toTOestablish an accurate and consistent use of these accounts.

On September 30 of each fiscal year, all of the uncleared suspense/budget account balances are reduced to zero by transferring them to proper appropriation accounts using a logical methodology, such as prorating the amounts on a percentage basis derived by comparing the disbursements in the suspense/clearing account to total disbursements.

Note 18. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

Obligations and Nonbudgetary Resources (Exchange Revenue): Supply Management Operation's obligations incurred include $1.3 million in refund receivables not previously included in obligations from previous years.

Resources That Do Not Fund Net Cost of Operations (Other): For Supply Management Material the Other Decrease is related to $173.7 million in prior period adjustments for the Fuels Commodity. The Fuels Commodity classified overpayments to creditors as refunds receivable rather than as deduction to accounts payable. The transactions to reduce the balance do not affect current year net cost of operations. For Printing Service $35 million is comprised of $18 million increase in other resources due to a prior year change in unfilled orders which exceeded revenue (proprietary) plus the reduction of budgetary resources caused by prior year deobligations exceeded the current year reduction in expenses (proprietary) by $16.9 million. In Supply Management Operations "Other" the $.6 million is the result of the current year change in refunds receivables. In DRMS the $8 million represents the change in unearned revenue from the previous year.

Unearned Revenue in DRMS: DRMS records unearned revenue for HW disposal contracts. These customers are billed monthly for disposal contract costs based on the obligated delivery order in the Base Operating Support System (BOSS). The disposal process can take up to one year to complete. The Inspector General's interpretation is that the actual point of disposal is the point when revenue should be recorded by DRMS. DRMS does not pay the contractors until they provide evidence of final disposal, at which time BOSS records the disbursement and passes an expense to DBMS. At the time HW customers are billed the proceeds are recorded as unearned revenue. The revenue becomes earned at the time the contractors are paid. Because unearned revenue impacts a proprietary account than adjustments need to be recorded on the budgetary side.

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Required Supplementary Information

Defense Working Capital Fund

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General Property, Plant, and Equipment *(Amounts in thousands)*

Real Property Deferred Maintenance Amounts

Property Type/Major Class	Amount
1. Real Property - Deferred Maintenance	
a. Buildings	$ 92,200
b. Structures	25,200
2. Total	**$ 117,400**

Narrative Statement:
The development of the DoD Facilities Sustainment Model, which ties "Should Costs" for Sustainment (i.e. provides resources for maintenance and repair activities necessary to keep an inventory of facilities in good working order) to the Real Property Inventory for which a Component is financially responsible, and subsequent Program Elements were reflected in the current BES guidance.

Exhibit OP-27 noted that BMAR data is no longer required and OP-28 reflected the new category of Annual Deferred Sustainment as the measure; the Annual Deferred Sustainment being the delta between the requirements generated by the FSM and actual obligations for Sustainment. Our assessment of Real Property Inventory for which DLA is financially responsible generated a Sustainment requirement of $ 341.9 M; our actual sustainment obligations for FY 2000 totaled $ 224.5 M. The $ 224.5 M represents $ 39.4 M obligated for Buildings and $185.1 M obligated for Structures.

Annual Deferred Sustainment = Deferred Maintenance, which for FY 2000 equated to $ 117.4 M ($ 341.9 M - $ 224.5 M); this reflects $ 92.2 M for Buildings and $25.2 M for structures.

Segment Information *(Amounts in thousands $)*

Part A.

1.	Fund Balance	$ 0
2.	Accounts Receivable	984,031
3.	Property Plant and Equipment	938,649
4.	Other Assets (Note 1)	10,022,711
5.	**Total Assets**	**$ 11,945,391**
6.	Liabilities Due And Payable for Goods and Service Received	2,196,005
7.	Deferred Revenue	
8.	Other Liabilities	349, 971
9.	**Total Liabilities**	**$ 2,545,976**
10.	Unexpended Appropriations	1,556,200
11.	Cumulative Results of Operations	7,843,215
12.	Total Net Position	9,399,415
13.	**Total Liabilities And Net Position**	**$ 1,945,391**

Part B.

1.	The Full cost of Goods and Services Provided	15,898,452
2.	The Related Exchange Revenue	14,194,501
3.	The Excess of Costs Over Exchange Revenue	1,703,951

Note 1: *Amount includes $9,498,125 of Inventory and Related Property*
Amounts are net of intrasegment eliminations

Part C.
The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the Department of Defense (DoD). The primary focus of DLA is to provide logistics support to the war fighter. In addition, DLA provides support to relief efforts during times of national emergency. DLA's major DoD customers are the Army, Air Force, and Navy. Other major Federal Government customers are The Department of Agriculture and The Department of Transportation. The DLA organization has five active entity sub-organizations funded through the Defense Working Capital Fund. These sub-organizations are referred to activity groups and are as follows:

The Supply Management Activity (Supply), appropriation symbol 97X4930.5C, helps carry out its mission by procuring, managing, and supplying over three billion consumable items to Military Departments, other DoD components, federal agencies and selected foreign governments.

The Distribution Depot Activity Group (Distribution), appropriation symbol 97X4930.5B, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments and other DoD components, Federal agencies, and selective foreign governments.

The Defense Reutilization and Marketing Service Activity Group (DRMS), appropriation symbol 97X4930.5N, provides reutilization services which includes receiving, classifying, segregating, demilitarizing, accounting for and reporting excess material for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal-bearing material.

The Information Services Activity Group, appropriation symbol 97X4930.5F50, provides information management support. The mission of this Information Services business is to provide integrated information management support by delivering products and services of increasing quality and decreasing cost, on time and within budget.

The Document Automation and Production Service Activity Group (DAPS), appropriation symbol 97X4930.5G, is responsible for document automation and printing within the Department of Defense, encompassing electronic conversion, retrieval, output, and distribution of digital and hardcopy.

Heritage Assets

For Fiscal Year Ended September 30, 2000

	Measurement Quantity	As Of 10/01/99	Additions	Deletions	As Of 9/30/00
Museum	Each				
Monuments	Each				
Cemeteries & Archeological Sites	Sites				
Buildings & Structures	Each		1		1
Major Collections	Each				

Narrative Statement: Per Executive Order 11593 from the United States Department of the Interior, Heritage Conservation and Recreation Service; Bellwood, Chesterfield County, Virginia has been entered in the National Register. Owned by the Defense Supply Center - Richmond (DSCR), the Bellwood home is an early nineteenth century plantation house highlighted by slender columns extending up two stories, it also serves as the DSCR Officer's Club. The DSCR Officer's club is in good repair. There are no deferred maintenance projects for this facility. Currently, only preventive maintenance/ service calls are being performed. The Department of Historical Resources in Richmond ensures the historical integrity of the property by approving any repairs, major or minor. The Office of Installation Services at DSCR provides most maintenance.

Defense Logistics Agency
Office of Comptroller
8725 John J. Kingman Road, STE 2533
Ft. Belvoir, VA 22060

View the Annual Financial Statement on line at:
www.dla.mil/J-8/