DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Chief Financial Officer
Annual Financial Statement
Fiscal Year 1999

March 1, 2000

Message from the Director

From Vietnam to OPERATION JOINT GUARD, the Defense Logistics Agency (DLA) has been there as America's premier logistics support agency around the world and around the clock. The DLA has never missed a beat in providing high quality logistics support to America's warfighters since its establishment in 1961. The Agency's support this year to the campaign in Kosovo was just as spectacular as its prior performances. Unprecedented levels of readiness were maintained with forward deployed DLA support that delivered focused logistics support to America's Armed Forces at the decisive moments of the campaign. On December 17, 1999, the Under Secretary of Defense, Acquisition, Technology and Logistics presented the Agency with its sixth Joint Meritorious Unit Award.

The Defense Logistics Agency is moving forward with a wide range of logistics initiatives to support America's warfighters in the new millennium. In FY 99, we intensified our efforts to reshape DLA for the future with an effort we call DLA 21. Starting with our 1998 Strategic Plan as a baseline, we assessed our performance against feedback from stakeholders, Military Services, warfighting CINCs, and suppliers. The result of this effort is a comprehensive plan which will bring dramatic improvement in five areas: customer knowledge/focus, business systems modernization, strategic sourcing of materiel, workforce development, and organizational redesign. By implementing this plan, we will ensure DLA remains as relevant to the future needs of the Department of Defense (DoD) as it has been in the past.

Our initiatives have resulted in critically needed savings and improved service to our customers. We have aggressively pursued partnerships with industry and our suppliers to deliver best value to our customers by increasing our shift to commercial practices. We consolidated DoD's energy supply management into a single agency using a commercial model. We are making every effort to rapidly exploit technology to provide agile, responsive, interoperable solutions and to lower our costs. We have gained national recognition for our innovations in web-based business applications.

These financial statements show our performance against the baseline of our 1998 Strategic Plan as revised by our FY 99 Performance Contract with the Military Services and the Department. As a result of our efforts to link financial and program performance, we have made significant strides towards achieving our goal of consistently providing responsive, best value supplies and services to our customers. By continuing to improve our business practices, we continue to revolutionize the way the Department conducts its logistics business. Our efforts and initiatives continue to enhance our financial program decisions in spite of increased pressure on scarce resources. I am firmly committed to continuous improvements in financial management processes and reporting and to linking program performance outcomes to investment levels.

Director, Defense Logistics Agency
Lieutenant General Henry T. Glisson
United States Army

Henry T. Glisson

HENRY T. GLISSON
Lieutenant General, USA

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Message from the Comptroller

Fiscal year 1999 has been a year of great progress towards our goal of attaining an unqualified audit opinion on our Annual Financial Statements. I am committed to this goal and I am excited about the very positive steps we have taken this year towards its attainment. The DLA developed and negotiated its first Performance Contract with the Defense Management Council (DMC) during FY 1999. The performance contract's main purpose was to articulate expectations for DLA's performance in FY 1999. It established metrics to measure performance and also linked costs associated with each of the metrics. We took further steps to address a number of internal controls and weaknesses across the Agency and we implemented a number of process improvements, which I believe will pay big dividends in terms of the quality of our future financial reports.

We have created a Chief Financial Officer (CFO) Compliance Team and the team reports directly to me. This alignment ensures CFO issues are raised to a higher level. The visibility this affords throughout the Command promotes more progress towards improving business practices, processes and the host of deficiencies affecting financial management. The establishment of the team dedicates a select workforce full time to improvement of the financial management process and culminates with publication of the financial statements. The team is also supported by contractor advisory assistance service, which brings highly qualified public sector accountants to bear on the process.

The CFO team developed a five year Chief Financial Officers Compliance Plan and coordinated it internally, as well as with the Defense Finance and Accounting Service (DFAS) and the Office of the Inspector General, DoD (DoDIG). The Plan is a living document and provides the Agency with a roadmap to correcting our deficiencies and enhancing our business practices and processes. It ensures that we collectively understand all the steps necessary to attain our goal. The CFO team also developed a Memorandum of Understanding (MOU) between DLA, DFAS, and the DoDIG to ensure everyone involved in the process understood their roles and responsibilities. I plan on renewing the MOU each fiscal year until our goal is attained.

During the year, we focused concentrated effort on improving the reporting of inventory because of its materiality to the DoD consolidated financial statements. We joined forces with DORRA, DLSC, DoDIG and GAO to develop a statistical sampling methodology to value the DLA inventory for financial reporting purposes. During August and September 1999, joint teams traveled to 13 selected depots to test and evaluate the methodology. The overall sample methodology was approved by the DoDIG and the GAO. They are currently reviewing the results of the first sample and we can expect audit recommendations to enhance the process. At the same time, we continued to work with DLSC by providing data that helped identify internal control and processing problems contributing to abnormal accounting and inventory adjustment transactions. This effort has been instrumental in changing business practices and reducing the number of accounting and inventory gain or loss transactions.

Comptroller, Defense Logistics Agency
Linda J. Furiga

With the solid foundation for improvement we have laid in this year our progress will continue. I remain firmly committed to the continuous process improvement that will allow us to attain our ultimate goal of an unqualified audit opinion. In the interim, the present statements reflect the concerted efforts of DLA to improve CFO financial reporting and to link cost and performance. 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 J. FURIGA
Comptroller

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Introduction to the Defense Logistics Agency

DEFENSE LOGISTICS AGENCY – DEFENSE WORKING CAPITAL FUND

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OVERVIEW OF THE DEFENSE LOGISTICS AGENCY

The Defense Logistics Agency is the logistics combat support agency for the Department of Defense. The DLA mission is to provide acquisition and focused logistics support to America's armed forces in peace and war—around the clock, around the world. DLA provides centralized management of energy, logistics information and consumable supply items; supports surplus disposal programs and provides contract administration services to the Military Services, as well as federal, state and local governments and foreign military organizations. Supported by a comprehensive strategic plan, DLA is continually reengineering and improving business practices to provide agile, integrated combat logistics solutions and life cycle support to the warfighter.

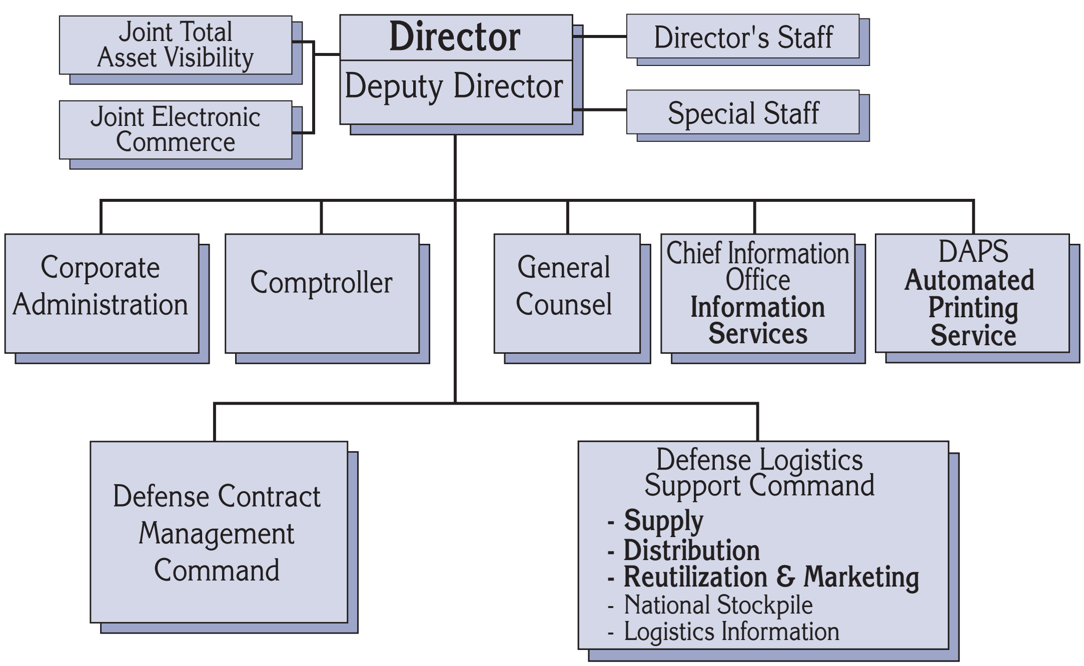
In FY 1999, the DLA revised its strategic plan for the year 2000 and beyond. The plan contains a revised vision statement and supporting goals and objectives that will serve as the basis for the FY00 report. The present report is based upon the DLA strategic plan, objectives and performance goals, which were in force during the FY99 reporting period. The revised strategic plan commits DLA to meet its Performance Contract objectives.

OUR VISION...
To be America's logistics combat support agency... the warfighter's choice for integrated life cycle solutions through teamwork and partnership.

OUR ETHOS...
We are warrior focused professionals, an integral part of the joint warfighting team. We know that victory by America's Armed Forces and the lives of service members depend on us. They can count on us to be there, every time, wherever they are, providing required logistical support...around the world, around the clock. We make a difference. We are Team DLA. We are proud!

ORGANIZATION

DLA accomplishes its mission through two major subordinate commands: the Defense Logistics Support Command (DLSC) and the Defense Contract Management Command (DCMC). Staff support is provided by the Defense Automated Printing and Support Center and the Comptroller, General Counsel, Corporate Administration and Chief Information offices. A secondary mission of DLA is the Department of Defense printing program, which is accomplished by the Defense Automated Printing Service. During



FY99, DLA employed just over 43,000 personnel and executed a total budget program of $14.8 billion. The Agency is funded through Appropriations and the Defense Working Capital Fund (DWCF). For reporting purposes, Logistics Information is included in the Supply Management business area. The Defense National Stockpile reports separately under the National Defense Stockpile Transaction Fund. DCMC is addressed here for the purposes of providing an overall view of the mission, programs and size of DLA. DCMC is funded through appropriations and therefore, is reported in the DoD General Fund financial statement.

The five DLA business areas that are included in these statements are part of the DWCF. They are: Supply Management, Distribution, Reutilization and Marketing, Information Services and Defense Automated Printing. The 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 identification of the full costs of support and measures performance 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.

AGENCY GOALS

In FY98, DLA implemented a comprehensive strategic plan that supports the Department of Defense's (DoD) Joint Vision 2010 (JV–2010) and emphasizes the tenet of "focused logistics," one of the four critical operational concepts of JV–2010. The tenet of focused logistics emphasizes improved logistics process performance, new technologies and business practices, improved information technology in support of service requirements and identifies and integrates highly successful logistics initiatives. These concepts, which are set forth in the Quadrennial Defense Review and the DoD Logistics Strategic Plan, are echoed in the DLA Strategic Plan.

The DLA Strategic Plan outlines our roadmap to the future and establishes metrics to measure our progress. Each of the goals and supporting objectives are implemented throughout the DLA business areas to ensure that, by sharing a common vision, we can continue our successes. Specific performance objectives for the DoD logistics community are appended to the Annual Report to the President and Congress, while specific DLA performance metrics are found in the DLA Performance Contract with the Defense Management Council.

DLA Strategic Goals

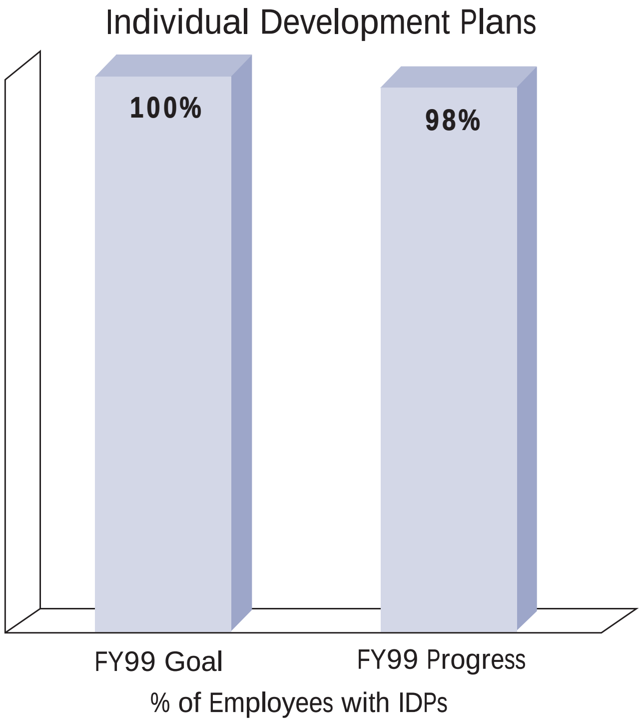
- Consistently provide responsive, best-value supplies and services to our customers.
- Serve as a catalyst for the Revolution in Business Affairs and Acquisition Reform.
- Ensure our workforce is enabled to deliver and sustain world class performance.
- Rapidly exploit technology to provide agile, responsive, interoperable solutions.
- Aggressively pursue partnerships with industry and our suppliers.

AGENCY OBJECTIVES

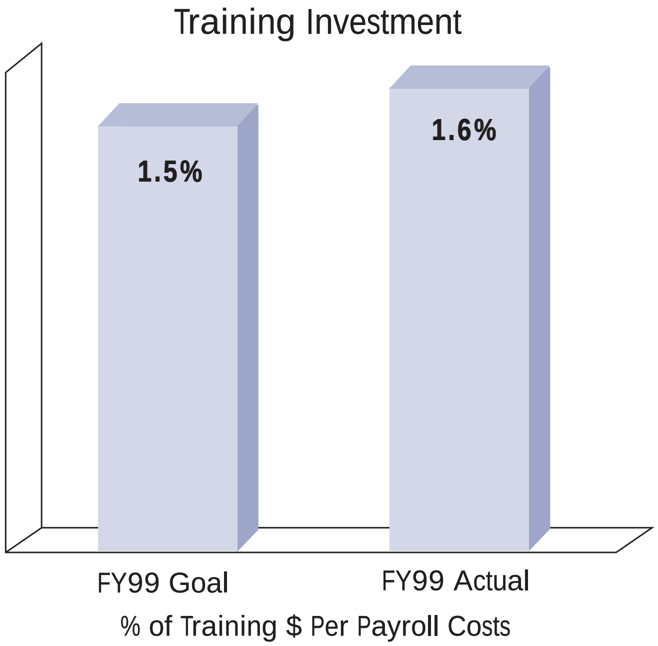
Each strategic goal provides a series of supporting objectives, with targeted success dates ranging from FY99 to FY05. The DLA Performance Contract with the Defense Management Council covers the period of FY99 to FY06. Reporting in compliance with that document will begin with the DLA FY00 CFO Financial Statements. The DLA business areas have strategies to support Agency goals and objectives. Progress is reported quarterly. Many of these strategies are tied directly to unique, business-area specific focused logistics efforts and will be addressed later in further detail. However, objectives involving all business areas are coordinated, tracked and reported by staff level organizations. Objectives related to workforce development and information technology are well underway.

This report emphasizes select program and financial performance measures that best support the agency goals and performance commitments from our customer's perspective.

- Individual Development Plans (IDPs): To achieve our goal of ensuring that the workforce is enabled to deliver and sustain world-class performance, we have established an objective to develop individual training plans for all employees by the end of FY99. Each business area requires the development of IDPs for their workforce.



- Training Investment: Another objective is to achieve a training investment level of at least 1.5% of gross payroll cost, linked to documented individual development plans, by FY00. DLA surpassed the 1.5% goal by the end of FY99.



The Information Technology (IT) Plan is undergoing a major revision in support of the new goals and objectives of the recently updated DLA Strategic Plan. The March 1998 IT Plan centered around five goals and sixty-two objectives focusing on client/server architecture, IT capital planning, IT skills, life-cycle management and performance measurement. Significant progress was made in achieving each of these goals and the IT Plan as a whole contributed greatly to the agency's success in meeting its overall business goals. However, different IT enablers were considered essential in meeting the agency's business goals as we enter into the 21st century. Therefore, the new IT Plan will concentrate on electronic commerce, information assurance and IT investment. This plan is scheduled for completion in December 1999.

YEAR 2000 ISSUES

DLA began Year 2000 (Y2K) remediation of its systems in 1996. All of DLA's Y2K remediations are complete as follows:

- 33 Mission Critical (MC) and 53 Non-Mission Critical (NMC) Automated Information Systems (AIS) were made compliant and contingency plans were prepared in the event of failure.
- 26 non-compliant AISs were terminated or replaced. One hundred-ninety (190) Memorandums of Agreement between DLA and other agencies/vendors are in place for interfaces to ensure a smooth Y2K transition. Two interfaces that required fixing were completed.
- 117,515 PC/server units, all related automation peripheral equipment and commercial off-the-shelf software (COTS) are compliant.
- 14,359 communications hardware/software items are compliant.
- 18,540 pieces of facility mission-supporting automation equipment are compliant.

DLA's Y2K cumulative expenditures are $67.7 million for testing, remediation of systems, code scanning, supplier capability, information assurance, configuration management and facilities readiness. Future costs for Y2K compliance have been estimated at $1 million.

DLA successfully completed Prime Vendor Assessments of 56 suppliers by testing their ability to perform electronic commerce and electronic data interface functions.

DLA's National Stock Number (NSN) risk mitigation involved examining NSNs and determining if there is sufficient stock available on hand to support customer needs through March 2000. Additional stock for NSNs that did not have adequate stock on hand were acquired in various ways, such as purchasing supplies from other sources, obtaining the necessary stock from one of the Military services or other actions to ensure that all mission-critical NSN stock levels are considered to be adequate to support DLA through the rollover to 2000.

DLA has Business Continuity and Contingency Plans that will be used to sustain our mission in the event of a failure to any systems critical to our support of logistics and procurement functions.

BUSINESS AREA MISSIONS

The DLA business areas included in the DWCF and reported herein are:

- Defense Logistics Support Command includes three integrated business areas:
  - The Supply Management business area provides customer support through management of logistics processes. This includes inventory management of energy and consumable items for both peacetime and combat support and technical support to ensure product quality and proper pricing of materiel.
  - The Distribution business area provides distribution and storage of wholesale and retail materiel in support of customers worldwide. This includes receipt, storage, issue, packing, preservation and transportation for over 5 million categories of consumable items used by the warfighter.
  - The Reutilization and Marketing business area supports reuse of excess and surplus property within the government and other authorized agencies. This business area is also responsible for disposal of remaining property and hazardous waste items through sales and contractual vehicles.
- The Information Service business area 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 no longer needed as a separate activity. Accordingly, it was disestablished December 10, 1998 and residual functions were rolled into other business areas and the DCMC effective October 1, 1999. DAASC functions were assumed by the Supply Management business area. The remainder of the Information Service business area serves to implement provisions of the Clinger-Cohen Act, provide information assurance policy and guidance, and manage the agency's IT infrastructure, including providing oversight for the agency's IT investments.
- The Automated Printing Services business area provides printing, duplicating and document automation for DoD. The current focus is on the transition from hardcopy to electronic-based document management.

DLA DWCF BUSINESS AREAS 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. DLA System Design Center (Disestablished 12.10.98)
9. Defense Logistics Information Service
10. Defense Automated Printing Service
11. Defense Logistic Agency

DEFENSE LOGISTICS SUPPORT COMMAND

A preponderance of the DLA mission is achieved through the DLSC, which is one of DLA's major subordinate commands. DLSC fully integrates the functions of logistics information, materiel management, distribution and disposal. The DLSC mission is to provide focused logistics support to America's Armed Forces. The Command manages 90% of the DoD's consumable weapons systems' spare parts in addition to fuel, energy, food, medical supplies, clothing, textile goods, industrial and general supplies, market-ready commodities and logistics services and information. The DLSC mission implements the Department of Defense Joint Vision 2010 by providing logistics support to the warfighter through processes designed to implement focused logistics, following the logistic objectives outlined in the DoD Logistics Strategic Plan.

The DoD Logistics Strategic Plan defines "logistics excellence" as providing the right materiel, at the right place, and the right time, at the right cost. The plan elaborates by outlining seven end-state characteristics to be in place by FY06 along with five critical success indicators and six logistic objectives. The DLA Performance contract with the Defense Management Council for FY00-05 reflects the philosophy of the Logistics Strategic Plan. The FY99 DLA Performance Plan prototyped performance planning for the Defense Agencies. This was a refinement to the Department's implementation of the Government and Performance Results Act (GPRA). Our performance on the most significant near-term metrics will be addressed under each DLSC business area. Three business areas: Supply Management, Distribution, and Reutilization and Marketing within DLSC work together to provide integrated supply support, asset management and focused logistics support to our customers.

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DLA Performance - Supply Management

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OVERVIEW

The Supply Management business area provides materiel and services to support peacetime and combat operations, combat preparedness and humanitarian aid. This includes integrated materiel management of 4 million spare and repair parts supporting over 1,400 weapons systems. Supply Management also provides management of troop support items including subsistence, clothing and textiles, medical supplies and the purchase and sale of over 100 million barrels of fuel annually.

Together, these commodities generated FY99 annual revenues of $13.6 billion, nearly 90% of which represented sales to the Military Services. Approximately 10,600 personnel support the Supply Management business area.

The Supply Management business area operates the Defense Energy Support Center at Ft. Belvoir, VA and three Defense Supply Centers located in Columbus, OH; Richmond, VA; and Philadelphia, PA.

MISSION

The mission of Supply Management 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. Our mission is dynamic as 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 business area) 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

GOALS

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

- Information technology will be leveraged to provide efficient integrated logistics support
- Business practices will be continually improved or reengineered to increase efficiency
- Teamwork and partnerships will be used to develop business relationships advantageous to the customer
- Our workforce will continue to receive the training needed to provide integrated solutions for world class support
- Effective and efficient supplier relationships will be leveraged to improve our buying power

FY99 ACCOMPLISHMENTS

- DSCC Call Center won a FY99 Hammer & Scissors Award based on its world class 87% first call resolution and only a 1% abandon rate. The call center is a customer assistance and expediting service DSCC provides to its Military customers and is an essential program related to customer satisfaction. Indicative of DSCC performance is the volume of support provided during the Kosovo Crisis. The DSCC received 55,000 requisitions, valued at more than $4 million and responded with an 87% fill rate. Not only was DSCC support reliable, the Center had two active duty, two reserve and one civilian DSCC personnel in theater during the conflict, providing liaison support. It was a record year for DSCC in its major performance indices with each one showing improvement over FY98. Supply Availability rose a full percentage and a half to 88.9% for the year. The DSCC reduced backorders over 20%, down to 116,959. Similarly, over-age backorders declined 34%. Finally, DSCC finished the year with 94% of all weapon systems supported above the 85% targeted supply availability. Our Level A systems, those most critical to the military service, achieved a very healthy 97% supply availability.

- DSCC elevated its Shift to Commercial Practice performance cumulative for FY99 of 22% of dollars obligated from 16% in FY98, including a 27% rate for September. During FY99, DSCC awarded 36 corporate contracts covering 12,000 NSNs with an estimated annual demand value of $44 million. DSCC created Tailored Support Units inside its application groups to further the creation of Tailored Support arrangements with our military customers. DSCC dedicated some 60 additional people to the application groups in the hopes of creating additional prime vendors, corporate contracts, and other long-term support relationships. Currently, over 30 Tailored Support Arrangements are in progress. As DLA's Lead Center in Land and Maritime systems support, DSCC responded to the challenge of Contractor Logistics Support by engaging directly with Army, Navy and Air Force Program Managers and Principle Executive Officers on the 16 DSCC-supported programs outlined in the Congressional Section 912c Report language. In each of these cases, Columbus personnel met with the program offices to offer logistics support concepts including DLA as the source of supply, or Contractor Logistics Support.

- High Mobility Multipurpose Wheeled Vehicle (HMMWV). DSCC awarded a corporate contract for the Up-Armor HMMWV to O'Gara Hess Corporation on April 7, 1999. This effort will ensure that all programmed HMMWVs will have bulletproof windows and armor plated doors, with rapid delivery at reduced cost. Culmination of the project resulted in a 5-year fixed price contract with a cumulative escalation of only 4.8% over 5 years. Baseline from previous contract history, negotiated price savings were in excess of $400,000 a year. One innovative approach eliminated individual purchase order freight costs by accumulating cost in cost pools. This approach decreased unit cost, which resulted in significant cost savings to Department of Defense customers. The contract specified a 10-Day delivery schedule for 258 of the 282 repair parts in the item schedule. The contract award utilized the "Alpha" contracting process, which compressed administrative leadtime from 11 months to 5 months through the use of Government and industry teaming. Additionally, this contract included use of Direct Vendor Delivery (DVD) through the Electronic Procurement Program Interface System (an electronic commerce system).

- DSCC Re-engineering Actions included several information technology-driven innovations which improved business processes. DSCC became Federal Acquisition Computer Network (FACNET) compliant during FY99. Web technologies and Electronic Commerce capabilities reduced manual Requests For Quotations (RFQ) by almost 20,000 annually and eliminated synopsis times for purchase requests below $100,000. This reduced administrative lead times by 21 days. During FY99, DSCC expanded its ability to automate procurement awards by creating a new class of automated solicitations. This innovation has resulted in a 400% increase in automated award opportunities by getting RFQ's on the Worldwide Web, employing hyperlinks for all provisions and clauses. DSCC is the DLSC A-76 Contracting Activity for contracting support and managing the source selections in the A-76 competitions dealing with the various DDC Depots and DRMS disposal yards. In other re-engineering actions, DSCC earned the DoD Standardization Award for the second year in a row, based on their performance with pursuing acquisition reform in the areas of specifications and standards.

- Aviation Investment - DSCR, as the DLA lead center for aviation, headed a team tasked to meet the DLA performance contract commitment of 85% supply availability for each of the military services. Extensive analyses indicated that weapon system supply availability was being negatively impacted by items related to aviation support. Although supply availability goals were attainable with existing funds through optimization of resources across supply centers, the analyses determined pockets of aviation support items that still remained far below acceptable support rates. This was due to the logistics support optimization model's propensity to fund safety levels for low cost, high volume items at the expense of high cost, lower frequency items. To alleviate the problematic situation, three support alternatives and the required funding for each were identified and provided to the OSD Program, Analysis and Evaluation Office. The Defense Review Board approved $500 million for additional aviation support over a four year period with an additional $50 million to support non-replenishment low demand items. The investment plan for the funding projects significant improvements in supply availability and the ability to significantly reduce/alleviate backorder situations on aviation support items. This dramatic improvement in aviation supply availability will have a strong and continuing positive impact on military service readiness.

- Bell Helicopter Contract - The DSCR aggressive and proactive management of the Bell Helicopter Corporate contract, the first corporate contract in DLA, has resulted in a contract that provides excellent support to the customer while minimizing costs. The original contract included 940 national stock numbers (NSN) with an estimated annual dollar value of $3.6 million. The contract required the contractor to fill requisitions over 90% of the time as compared to the historically experienced fill rate of 85%. Since contract award in 1994 and initial implementation in 1995, over 2,000 NSNs were added with an estimated annual dollar value of $14.5 million. The contract's actual customer requisition fill rate remained over the target of 90% and cost control has been excellent with 0.8% unit price growth over the five years of the contract as validated by the Inspector General. A follow-on 10-year contract for over 300 NSNs with an estimated dollar value of $220 million was recently awarded. A modification to add over 1,000 additional NSNs is anticipated to be executed in December 1999 which will increase the anticipated 10-year dollar value of the contract to approximately $360 million.

- Defense Supply Center Philadelphia (DSCP) initiated the Maintenance, Repair and Operations (MRO) Prime Vendor Program which resulted in 114 customers and $83.2 million in sales for the year. New MRO Prime Vendor customers include the Pentagon. The MRO Prime Vendor program furnished more than $1.5 million in materiel for use in the Pentagon renovation and other projects. The program uses integrated suppliers and proven commercial business practices to provide customers with all their facilities maintenance requirements, including electrical, plumbing, heating and air conditioning supplies, lumber, paint, small tools, assorted hardware and building materials from one point of contact. MRO Prime Vendor was initiated to reduce inventories and associated costs, to address reductions in infrastructure and processes, and to capitalize on leveraged buying power.

- DSCP initiated the Wood Product Program with sales totaling $43 million. Since awarding its first Wood Products Prime Vendor contract in 1998, covering the Mid-Atlantic region of the United States, the program was expanded to the U.S. Southwest and Pacific regions, including Korea, Okinawa and Mainland Japan. The remaining CONUS regions, Alaska and Hawaii have anticipated award dates for early FY00. These long-term relationships use Prime Vendors to provide hardwoods, softwoods, plywood, veneer, millwood, poles, pilings and bulk lumber as well as products in customized lengths. DSCP also expanded its customer base to include non-traditional activities such as the U.S. Coast Guard, Federal Prisons and the National Park Service. Participation in the program provides the customer with reduced lead-times, inventory cost reductions and overall infrastructure savings.

- DSCP awarded four Food Service Equipment Prime Vendor contracts in June 1999. These contracts also support the equipment service needs of military customers stationed throughout the world and aboard Naval ships. The Food Service Equipment Team established these Prime Vendor contracts to meet the day-to-day needs for food service equipment as well as the unique surge requirements for food service equipment during times of emergency and during times of unexpected and/or large accelerations in demand. Other Prime Vendor contracts were awarded with similar customer-focused results and Department efficiencies for:

    - Marine Lifesaving and Diving Equipment and Services to support military and federal activities.

    - Industrial Items to support Camp LeJeune, NC, Camp Pendelton, CA and multiple customers in Okinawa. Additionally, support was enhanced at previously awarded locations: Navy Aviation Depots North Island, San Diego and Cherry Point, NC.

    - Prime Vendor Metals with facilities across the continental United States to support customers in the Northeast and Western regions.

- DSCP's Pharmaceutical Prime Vendor sales accounted for $922 million of the Medical Directorate's total sales of $1.5 billion. The Medical Directorate awarded nine second-generation pharmaceutical Prime Vendor contracts during 1999. Realignment of the pharmaceutical Prime Vendor regions to coincide with TRICARE regions will be completed by the end of FY00.

- DSCP's Air Force Prime Vendor Program moved to the next level with the award of the next generation Prime Vendor contract to support Air Force recruits at Lackland AFB. The new Prime Vendor contract provides for 100% support of all recruits' clothing bag items. The Prime Vendor receives all clothing stock from nationally leveraged prime contracts awarded by DSCP. The Prime Vendor manages the wholesale inventory and receives materiel release orders directly from the Standard Automated Materiel Management System (SAMMS) and delivers to Lackland AFB within a contractually required seven days. Air Force Prime Vendor sales in FY99 exceeded $19 million. Inventory savings of $4.5 million, warehouse inventory reduction from 80 to 20 days of stock and a 50% reduction in warehouse space have been achieved for Lackland while Order Ship Time has averaged 4 to 5 days.

- DSCP's Subsistence Operational Rations continues to provide excellent support in regard to humanitarian feeding. The Humanitarian Daily Ration (HDR) is a 36-month shelf-stable ration that provides basic nutrition for a whole day's feeding for one individual. HDRs are usually employed when bulk feeding for a population is impeded in some way (i.e. disaster relief, refugee crisis, etc.). Recent examples this past year included the crisis in Kosovo, where we supplied 2.1 million rations, and East Timor, where we supplied 300,000 rations. The cost of one HDR is $4.25. The HDR is also capable of being air dropped. Menu variety has recently been expanded; any particular case of HDRs contains two (2) each of five (5) different menus. Menu components are all vegetarian meals, absent of all animal products and byproducts and are sensitive to religious and ethnic requirements. In FY99 Subsistence Operational Rations bought 3.1 million HDR meals (311,000 cases). The DLA manages the HDR program for the Defense Security Cooperation Agency (DSCA).

- Food Service. DSCP awarded contracts for the balance of it overseas customers. Contracts were awarded and implemented for Subsistence Prime Vendors in Japan, Okinawa and Korea. Additionally, support was provided for Hurricane Relief in Central America and for operations in Kosovo. National Allowance Pricing Agreements savings increased to over $9 million in FY99 and food savings exceeding $600,000.

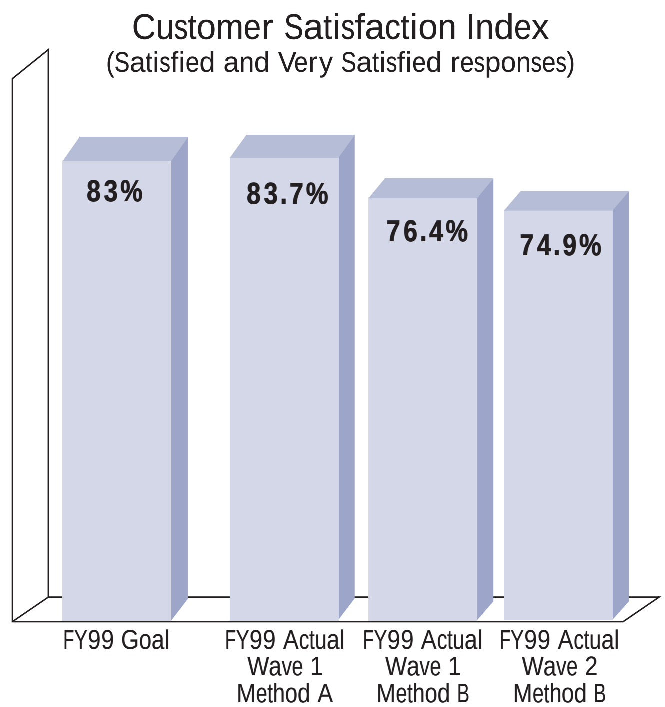
- Competitive Electricity Procurement Demonstration. The Defense Energy Support Center awarded a contract for the California Centralized Electricity Procurement Demonstration. The program goals were to demonstrate the viability of aggregating and procuring regional DoD electricity requirements on a centralized basis while reducing DoD electricity costs and maintaining reliability and power quality. DESC awarded a contract to New Energy Ventures (NEV) on May 12, 1998. The contract is for the delivery of approximately 5.3 million megawatthours of electricity over a period from June 1, 1998 through March 31, 2002. The estimated contract value is $297 million. Of this total, $129 million is for the competitively awarded commodity portion of the contract. Anticipated savings equal an estimated net present value total of $1.7 million or 1.32% savings on the commodity cost. One of the realities of electricity restructuring is that, until stranded costs are recovered, savings will be minimal. (Stranded costs are that portion of investments made by a utility in generation and/or regulatory assets that would not be recovered if the utility were required to sell electricity at market prices.) This does not relieve DoD from the obligation to compete and the lessons learned from this demonstration will allow DoD to take full advantage of savings opportunities once stranded costs are recovered. The contract award to NEV included 87% of the total solicited quantity and included requirements from each of the Services.

PERFORMANCE MEASURES

Customer Satisfaction Index: This measure directly supports the DLA Performance Contract goal to achieve 90% customer satisfaction by September 2002. An interim goal of 83% was established for FY99. The metric measures the percentage of customers who responded on periodic mail-out surveys that they were either "satisfied" or "very satisfied" with the Defense Logistics Support Command's products and services. DLSC tested moving the placement of the overall satisfaction question on the survey to increase the response rate from customers. Moving the question from the first position into the body of the survey increased the response rate for the question from the 60% range to 84%, but also had the unforeseen effect of lowering the overall satisfaction rate. The new position for the overall satisfaction question increases customer response rate and also tends to yield a more honest assessment by customers because previous questions enable them to recognize the full scope of DLSC support. For this reason, DLSC will use the new survey methodology on all future surveys even though they may result in a lower overall satisfaction rating.

During FY99, DLSC sent out two waves of surveys, one in December 1998 and one in July 1999. Each wave surveyed a different random sample of customers from the DLSC customer population. The December 1998 surveys tested the question placement alternatives. The original placement of the overall satisfaction question yielded ratings of 83.7%, while the alternate placement reported 76.4% which for various reasons is the more accurate method. All the July 1999 surveys used the alternate placement of the question and resulted in a rating of 74.9%.

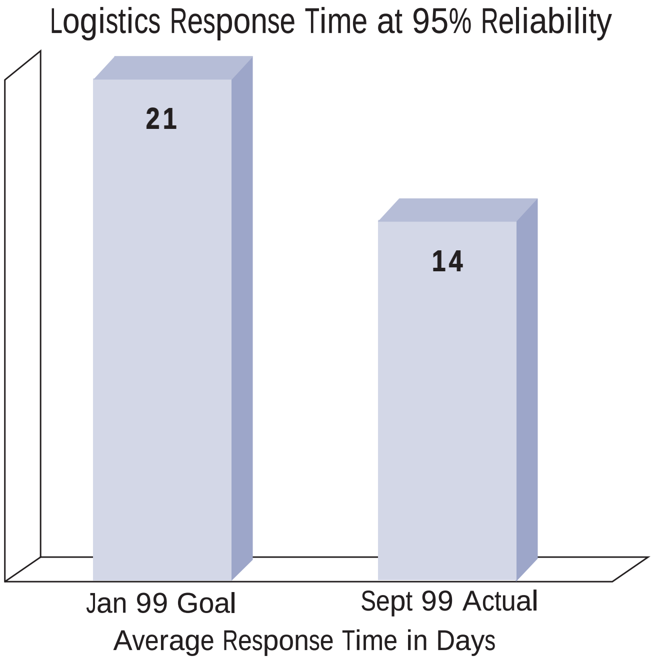
As a result of the new survey methodology, there is now a wider gap between our FY02 goal and our measured achievement this year. Our original baseline was established under the old survey methodology. DLA is working with OSD to change the goal for September 2000 from 85% to 80% to compensate for the change in methodology.



LRT Reliability and Customer Wait Time Metric Improvements: The LRT performance measures support the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. DoD has targeted a 50% reduction in the response times for the combined immediate issues and delayed issues measured against the FY97 baseline of 36 days. The Logistics Strategic Plan calls for a conversion to Customer Wait Time within the Future-Years Defense Plan cycle (2006). While we continue to review and manage discrete internal segments or nodes as part of our lead-time reduction efforts, our agency metrics for the FY00-05 planning cycle stress customer experienced outcome metrics. Moreover, we have improved automated collection of our lead times for Prime Vendor and other commercial practice support methods. These improvements render separate reporting of commercial practices redundant.

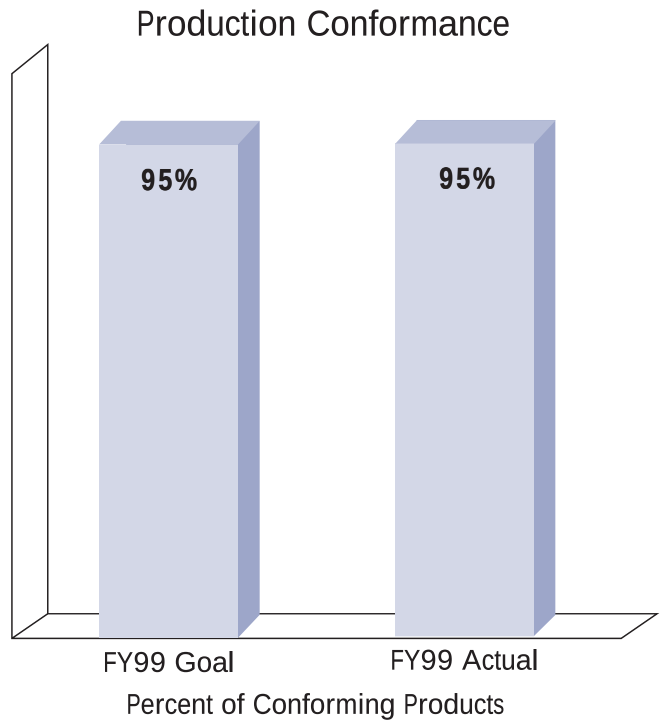
LRT for Immediate Issues: This metric was introduced in FY98 as an interim measure that reflects integrated logistics support from both the inventory control points and the distribution depots. Our improved, customer-focused response measures gauge performance of the integrated support of the Supply Management and Distribution business areas. The separate supply and distribution immediate issue standards (as reported here and in the Distribution section) are not specified in the FY00 Performance Contract and will not be reported after this period. In combination, the supply and distribution response times for immediate issues was 1.6 days. This bettered the FY99 goal of 2.0 days and FY98 performance of 2.1 days.

LRT for Total Pipeline (Immediate and Delayed Issues): The total pipeline LRT 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 FY99, 95% of all requisitions were filled within an average response time of 14 days. Over the total population, the average response time was 21.9 days. Many completed and ongoing initiatives helped us to achieve FY99 LRT actual performance that was significantly better than the performance target. The DLA focus on implementing more long-term contracts, direct vendor delivery and establishing more prime vendor arrangements allows for more rapid response for all items. In addition, we have been able to develop procedures that integrate subsistence transactions and medical orders, supplied via non-standard systems, into the Logistics Metrics Analysis Reporting System (LMARS) report. These subsistence and medical transactions contributed to reduced LRT. Such improvements begin our transition to Customer Wait Time for FY01 and beyond.



Response Times for Integrated Logistics/ Commercial Practices: This performance measure is somewhat different than the other LRT measures, in that the goal is to meet or exceed customer expectations. There is no specific numeric metric for determining customer expectations. If the provider meets the negotiated response time and can deliver more rapidly than deliveries from DLA inventories, both the military customer and DLA experience lower overall costs, infrastructure investment and inventory costs. Improvements during FY99 in LMARS reporting now includes measurement of integrated logistic and commercial practice response times in out LRT performance. The Performance Contract and the DoD Logistics Strategic Plan endorse this approach. Therefore, DLA has discontinued the sampling method of reporting commercial-based response times that was reported in FY98.

Product Conformance: This measure directly supports the DLA Strategic Plan goal to consistently provide responsive, best-value supplies and services to our customers. This measure reflects 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%. In FY99, DLA met the goal of 95%.



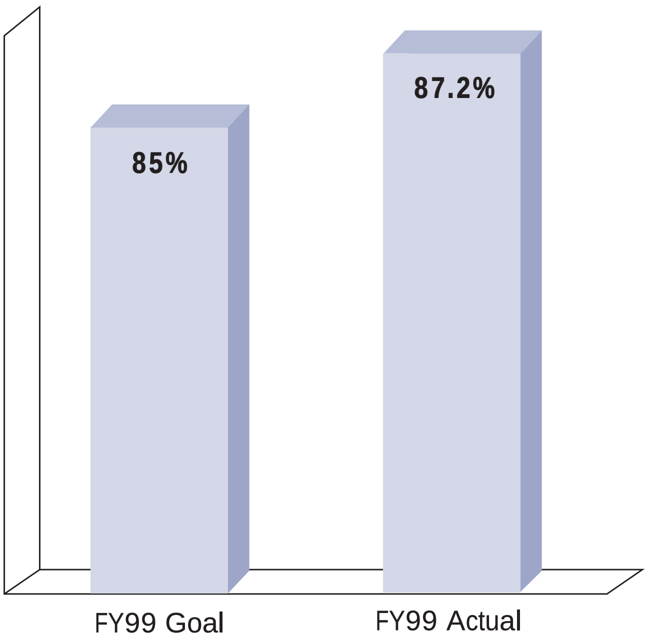
Supply Availability

In FY99, DLA measured weapons systems supply availability discretely from the Agency overall supply availability. Weapons system supply availability is one of our critical customer-focused metrics and makes the reporting of overall supply management redundant. Consequently, we are phasing out overall supply availability as a reported agency metric.

Overall Supply Availability: Our overall supply availability of 87.8% exceeded our goal of 85% by 2.8%. This measure is not specified in the FY00 Performance Contract and has been replaced by weapons systems supply availability. We continue to use it internally as a measure of the effect of inventory investments. Other supply/readiness metric improvements are in the planning stage. Our reliance on inventory-based supply methods is also undergoing re-engineering.

Weapons System Supply Availability: Weapons System Supply Availability directly supports the DLA Strategic Plan goal to consistently provide responsive, best-value supplies and services to our customers. In FY99, DLA exceeded the composite goal of 85% set by DLA for weapons system supply availability. However, the availability did not meet 85% for each Military Service. Air Force supply availability averaged slightly below the 85% goal. Thus, investment strategies were revised to replenish low stocks of critical aviation supplies. Metric improvements will be realized as contract due-ins arrive a lead-time away or sooner.

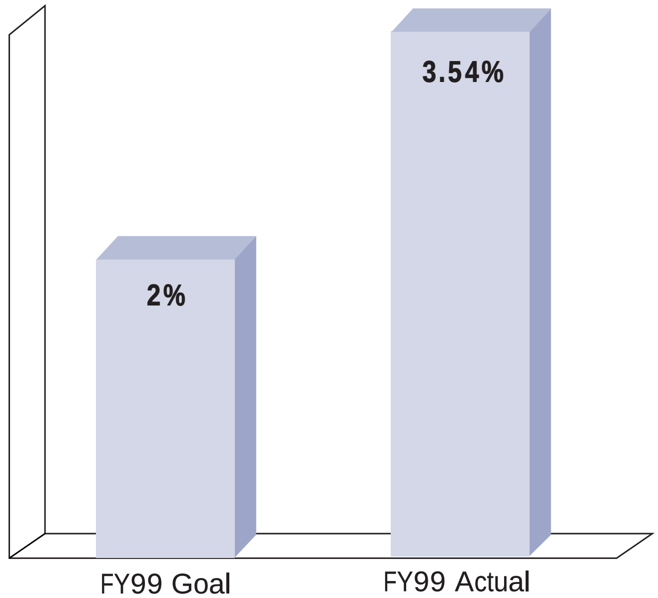
Weapon System Supply Availability



Percent of Supply Availability

Cost of Logistics Information: This measure directly supports the DLA Strategic Plan objective of reducing total costs to our customers. This metric allows DLA to capture the necessary information to target reductions in our product and service costs utilizing cost collecting and measurement procedures through Activity Base Costing (ABC). Examples of information products include Training, CD-ROM, Extracts, Database Updates, and Universal Data Repository (UDR) to name a few.

Cost of Logistics Information



Percent of Decrease in Cost of Information

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 Supply Management unit cost results for the Energy (fuel) commodity and the composite non-energy commodities:

Financial Performance Measures	FY99 Goal	FY99 Actual
Cost per Barrel of Fuel	$ 26.24	$ 32.26
Non-Energy Cost per Dollar of Sales	$ 1.04	$ .99

The Cost per Barrel of Fuel includes the acquisition cost of a barrel of fuel in addition to costs for fuel services, transportation and overhead. The FY99 actual unit cost was higher than the FY99 goal due to product costs, which were substantially higher than initially planned. The non-energy cost represents the acquisition value of materiel in addition to overhead and other support costs.

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DLA Performance - Distribution

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OVERVIEW

The Distribution business area is responsible for the receipt, storage, issue, packing and preservation of consumable items, as well as delivery of materiel from its warehouses to on-base or nearby customer sites such as ships, posts and repair facilities. DLA also contracts with a variety of commercial sources to transport items from vendors or DLA's own warehouses direct to customers worldwide. The function includes distribution of items managed by DLA and items managed by the Military Services, which results in unique complexities associated with maintaining accountability for items owned by several components. In FY99, the Distribution business area executed 24.6 million transactions and managed nearly 291.8 million cubic feet of occupied storage space. The Defense Distribution Center manages 24 subordinate distribution depots throughout the Continental United States, Europe and Pacific. In FY99, this business area generated revenues of nearly $1.5 billion and employs 11,025 personnel.

MISSION

The mission of the Distribution business area is to ensure that consumable items under its control are 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 Distribution mission is an integral part of providing integrated logistical support to the warfighters.

GOALS

The goals of the Distribution business area are consistent with the goals contained in the DLA Strategic Plan. These goals are achieved through a series of supporting strategies:

- Increase our reliability, response and value to our customers by continually improving or reengineering our business practices
- Review our activities and implement changes, as necessary, to ensure efficiency, effectiveness and best-value costing for our customers
- Reduce under-utilized infrastructure by eliminating unnecessary storage capacity

FY99 ACCOMPLISHMENTS

- <u>Capitalization of OCONUS Defense Distribution Depots:</u> In partnership with the Navy Supply Systems Command, the DLA conducted a Business Case Analysis on the benefits that would be gained by the Naval Supply Systems Command HQ if DLA assumed the Physical Distribution at the Fleet and Industrial Supply Centers in Pearl Harbor and Yokosuka. The research and analysis indicated mission potential savings from the conversion of Navy retail-type inventory levels to DLA wholesale inventory. This conversion would also provide potential recurring annual savings of $5.2 million to the Navy by elimination of special Navy processing and storage charges. Sharing facility costs with the Army, Air Force and the Marine Corps customers in a Defense depot will reduce the overall cost of Navy overseas operations and provide regional distribution support for DLA and Service-managed items needed in the Pacific. DLA assumed the Physical Distribution of Yokosuka and Pearl Harbor in April 1999.
- During FY99 the bulk of DLA depots converted to 2 Dimensional Bar Code printing on the Military Shipment Label, DD1387. The conversion to 2D bar codes required the upgrade of over 2,000 printers and is well ahead of schedule with complete conversion of the remaining depots expected by the end of 1st Quarter FY00. The inclusion of a 2D bar code on the DD1387 provides the receiving customer with "in the box" visibility of small consolidations, which constitutes the overwhelming majority of DLA shipments.
- During FY99, DLA implemented POWERTRACK payment processes throughout the Agency's

transportation offices. POWERTRACK is an on-line payment process and transaction tracking system that adds powerful capabilities to the transportation process. Accurate and timely visibility of transportation costs allows both the DLA and the Military Services to make more cost efficient transportation decisions. It was selected by the Department of Defense as the cornerstone to completely reengineer Department documentation/financial processes. POWERTRACK payments constituted over 86% of the total paid by DLA in FY99.

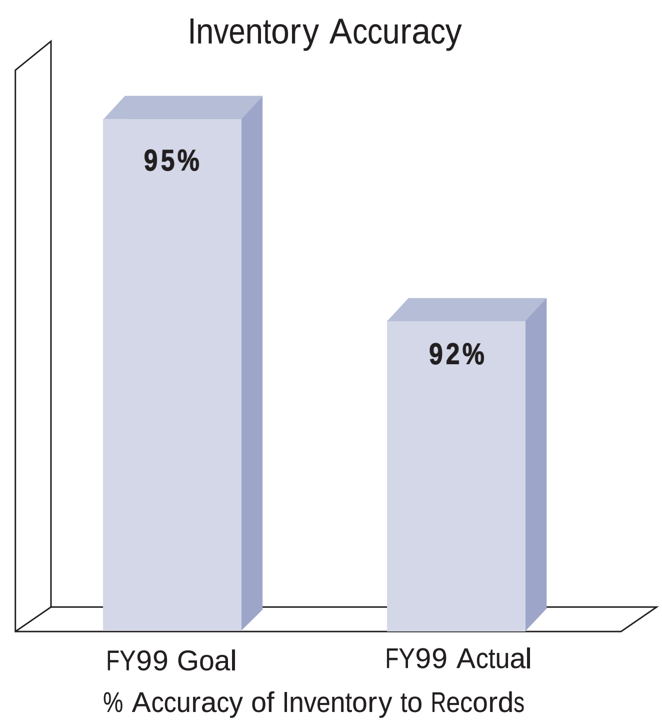
PERFORMANCE MEASURES

Depot Logistics Response Time (LRT): This measure is a secondary-level measure in support of Department goals to reduce wholesale LRT and customer wait time. Beginning in FY98, DLSC reported an immediate issue LRT goal as a combined Inventory Control Point (ICP) and depot response times in the Supply Management portion of the DLA FY98 CFO report. In FY99 the average depot response time of 0.6 days reflects high priority and routine issues. The reduction from the FY98 level was facilitated by a measurement improvement that allowed reporting in hours rather than whole days. Because this measure is not defined in the FY00 Performance Contract, we will discontinue reporting this information. The information will be reported in overall LRT with supply processing.

Sample Inventory Accuracy: This measure directly supports the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. This measure reflects the accuracy of inventory records using statistical sampling to determine whether physical counts match recorded balances at the depots. Random samples are taken and accuracy is measured semi-annually.

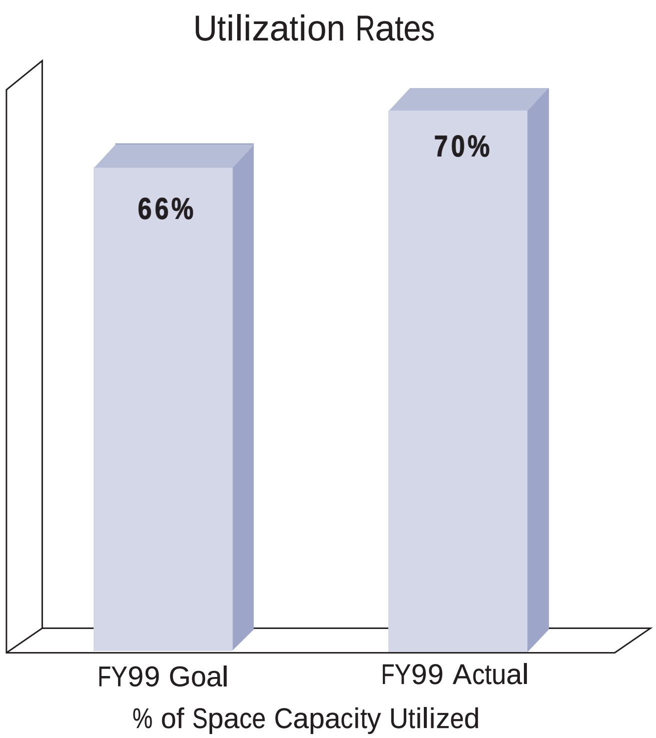
In FY99, DLA incorporated the DoD Stratification and Tolerances for Inventory Record Accuracy into our inventory sampling methodology. The DoD plan takes into consideration item characteristics such as dollar value, providing a means to focus resources commensurate with record error significance. Because this approach was very different from previously used sampling plans, comparisons with previous years' performance are not recommended. Therefore, the FY98 baseline no longer applies. The new baseline is 2nd Quarter FY99 at 91.9%. The 4th Quarter FY99 performance is 92.03%. While we have not met the overall goal of 95%, in the High Dollar Value stratification, which represents 86% of the dollar value of assets stored by DLA, we have achieved 95.2% record accuracy.

In order to achieve increased inventory accuracy we have to identify and correct all discrepant records while preventing the introduction of new errors. This requires improvements to a broad range of distribution processes. In the current environment, we have had significant Reductions-In-Force and A-76 competitions, resulting in a loss of expertise and requiring us to reemphasize and rebuild training programs. This has made achieving the goal difficult, so our focus has been on maintaining a continuous improvement trend toward that goal.



Denials: This measure is a secondary-level measure in support of inventory record accuracy. It measures denial incidents per 1,000 requests for issues. A denial incident occurs when an item recorded on the inventory records is not onhand or cannot be located and made available for issue to a customer. The goal of eight such incidents per 1,000 requests was surpassed by the actual figure of only five per thousand requests. This measure is not defined in any Performance Contract and therefore will not be reported in the future.

Infrastructure Reduction: In an effort to reduce infrastructure costs, the Distribution business area measures storage capacity and occupancy to identify improvements in space utilization rates and eliminate unnecessary space. The 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, and the objective to reduce overall infrastructure.
In FY99, the planned space utilization rate of 66% was exceeded by 4% indicating better utilization than planned.



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 the total cost. The FY99 goals presented below are from the FY00 President's Budget and are considered to be a more accurate measure of performance. The following table depicts the Distribution unit cost results for each of their receipt, issue and storage categories:

Financial Performance Measures	FY99 Goal	FY99 Actual
Bin Receipts	$ 22.02	$ 21.50
Medium Bulk Receipt	$ 35.18	$ 34.46
Hazardous/Heavy Bulk Receipts	$ 56.95	$ 76.40
Bin Issues On Base	$ 12.68	$ 12.21
Bin Issues Off Base	$ 26.37	$ 18.61
Medium Bulk Issues On Base	$ 49.94	$ 25.98
Medium Bulk Issues Off Base	$ 17.83	$ 37.39
Haz/Heave Bulk Issues On Base	$ 38.89	$ 48.64
Haz/Heave Bulk Issues Off Base	$109.83	$126.69
Transshipments	$ 5.27	$ 7.12
Unit Cost – Total-Composite Rate	$ 25.96	$ 26.66
Unit Cost – Covered Storage	$ .77	$ .74
Covered Storage Revenue	$ .83	$ .80

The FY99 total cost of distribution services is as follows:

	FY99 Goal	FY99 Actual
Total Cost ($M)	$1,452.7	$1,363.5

In FY99, costs were down in storage and reimbursables due to underexecution of full time equivalents, lower overocean transportation costs and lower Base Realignment and Closure (BRAC) and reimbursable expenditures. Conversely, costs for processing exceeded President's Budget estimates due to higher than anticipated workload.

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DLA Performance - Reutilization and Marketing Service

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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 re-purchase materiel. In FY99, materiel with an acquisition value of $20.4 billion was turned in to DRMS and $2.8 billion was re-utilized by DoD. Items that are not reutilized within DoD are screened for possible transfer to other Federal agencies, or for donation to local governments. Surplus property that cannot be reutilized is offered for sale to the public on a competitive basis. DRMS also oversees the disposal of remaining property and hazardous waste items through sales and contractual vehicles.

Command and control of the DRMS 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 FY99 mission was performed with just under 2,800 personnel, nearly 500 less than FY98, and generated revenues of $289 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.

GOALS

The long-term goals of the Reutilization and Marketing business area are 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 to ensure efficiency, effectiveness and best-value costing.

FY99 ACCOMPLISHMENTS

- <u>Finalist in the Ford Foundation’s Innovation in American Government Award</u>. DRMS was selected from among over 1,600 applications as one of 25 finalists in a national competition recognizing Innovation in Government for use of the World Wide Web to offer customers easier access to information on excess and surplus property. 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.

- <u>Completed Infrastructure Reduction</u>. In FY99 DRMS virtually completed an initiative that reduced its field infrastructure from 138 DRMOs to 68 (51% site reduction). Only two BRAC sites remain for closure. This initiative was projected to save $32 – 40 million annually after completion. Current cost figures show a cost savings to date of $28 million over the FY96 baseline decision costs. DRMS anticipates being in the projected range for savings when the remaining sites are closed and when all implementation costs are completed.

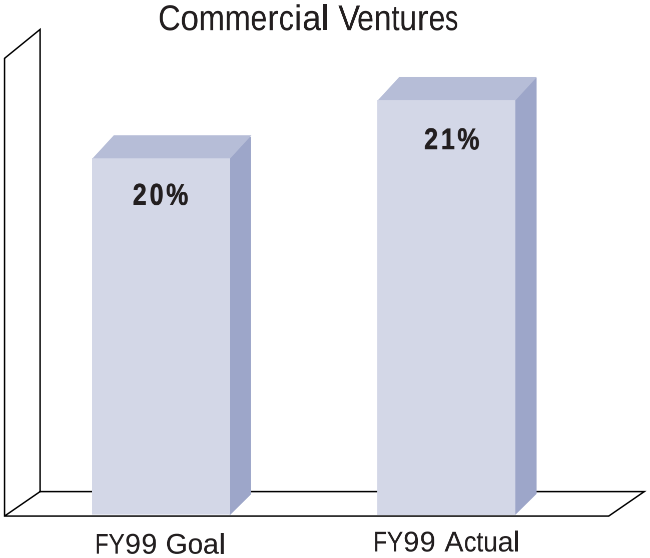
- <u>Centralized Demilitarization (DEMIL) Centers</u>. DEMIL performance was historically dispersed to all DRMO locations. However, these DRMOs were not efficiently resourced to perform industrial processes. The DEMIL Centralization initiative began April 1, 1998 as a business practice change at DRMOs Warner Robins and Texarkana as two pilot sites performing DEMIL for DRMOs in a geographic area. The primary objectives of DEMIL Centralization are accurate DEMIL performance, to maintain accountability and to increase efficiency. As of June 1999, centralization has been consolidated to nine operational sites.

PERFORMANCE MEASURES

The DRMS performance measures support the DLA Performance Contract and the DLSC 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, is an indicator of the degree to which DRMS has privatized the sales workload. The commercial 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 FY05, 95% of DRMS' sales workload is projected to be accomplished through similar long-term sales arrangements. As of FY99, DRMS is 1% ahead of the scheduled deployment of Commercial Venture.

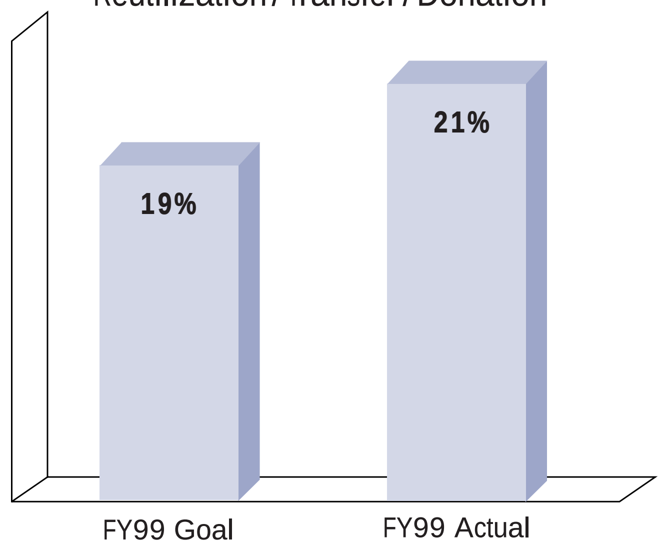
Commercial Ventures



% of Property Referred for Sales to Commercial Venture

Reutilization/Transfer/Donation (R/T/D): This indicator represents the aggregate acquisition value of the reutilized, transferred and donated property processed, 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 FY99, DRMS achieved a 2% higher reutilization rate than their goal of 19%.

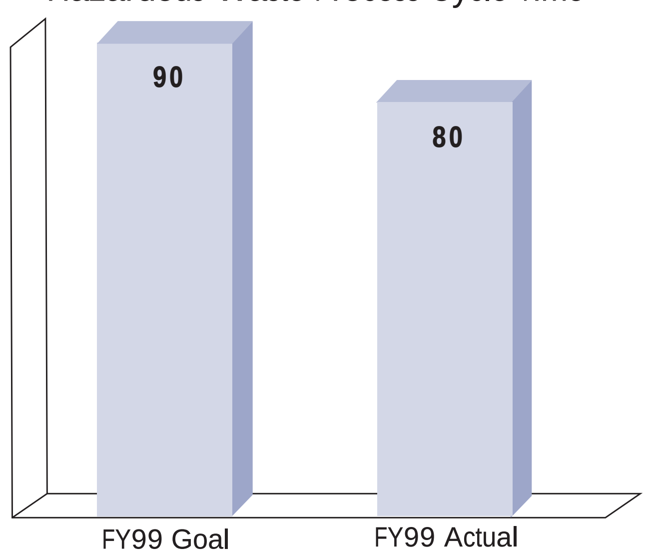
Reutilization / Transfer / Donation



% of Acquisition value of Total Receipts

Hazardous Waste Process Cycle time: This measure monitors the duration of component processes and total of DRMS cycle time for hazardous waste disposal. DRMS would be in violation of Federal and 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 FY99, DRMS complied with 90-day goal by achieving 80-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	FY99 Goal	FY99 Actual
Cost/Dollar of Acquisition Value - Reutilization/Transfer/Donation	$0.0178	$0.0155
Cost/Pound - Ultimate Disposal	$0.1820	$0.1470
Cost/Dollar of Sales Proceeds	$1.0053	$1.2748
Cost/Line - Abandonment and Destruction	$295.37	$274.72

DRMS is measured on four unit cost goals: R/T/D, Ultimate Disposal, Sales Proceeds and Abandonment & Destruction (A/D). The FY99 R/T/D and Ultimate Disposal unit cost goals came in lower than planned as a result of higher workload. The Military Services turned in excess personal property with an acquisition value of $20.4 billion, exceeding the performance contract goal of $19.3 billion by $1.1 billion. Ultimate Disposal workload was above plan due to Kosovo support and one-time asbestos disposal for the Defense National Stockpile Center. The unit cost goal for Sales Proceeds exceeded plan, which was due to a lag in commercial venture sales, as well as a weakening scrap market that pushed down prices for ferrous, non-ferrous and non-metallic scrap. Although, workload was lower than projected, Abandonment & Destruction cost efficiencies more than offset the effect resulting in unit cost performance better than goal.

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DLA Performance - Information Services

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OVERVIEW

The Information Services business area serves as a primary provider of integrated information management support. The DLA System Design Center (DSDC) in Columbus, OH, the Defense Automated Addressing System Center (DAASC) in Dayton, OH and eight geographically dispersed satellite sites provide this support. In FY99 the Information Services business area began the year with approximately 1,100 employees and ended the year with 1,030 employees. After several years of operations, the business area was disestablished at the end of FY99 and integrated into its DLA sponsoring organizations in the beginning of FY00. This action recognized that the sponsoring organizations could more effectively manage these programs as sub-elements of their respective organizations. These sub-elements, "Business Support Units", permit both program and cost visibility within the Supply, Distribution and Reutilization and Marketing business areas as well as the Defense Contract Management Command.

In spite of the actions taken to disestablish the business area, an Information Services business area operations budget is needed in FY00. This budget will permit the expense of all prior year undelivered orders. The cost estimate for this close-out is $12.7 million.

MISSION

The mission of the Information Services business area is to provide integrated information management support by delivering products and services of increasing quality and decreasing cost, on time and within budget. This support is provided through two major program areas: Software Development and Maintenance and Technology and Infrastructure Support.

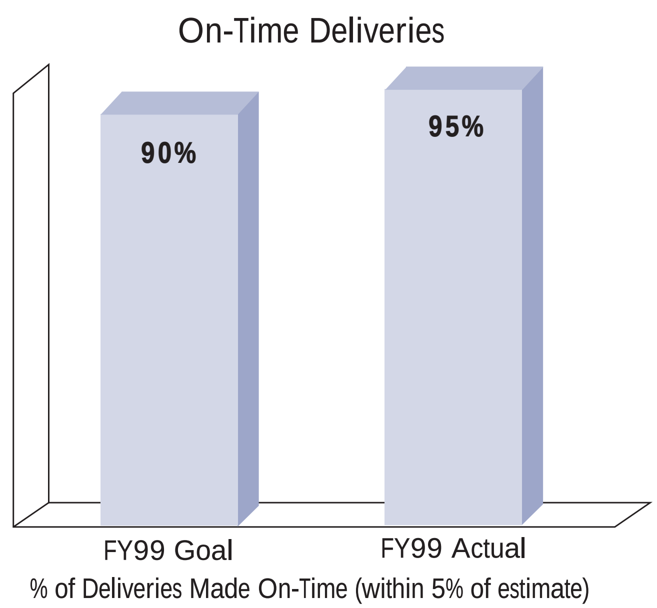
Another critical goal for the Information Services business area through FY99 was to ensure that all DSDC-supported information systems were compliant for Year 2000. Accomplishments in this area were addressed previously in this document.

GOALS

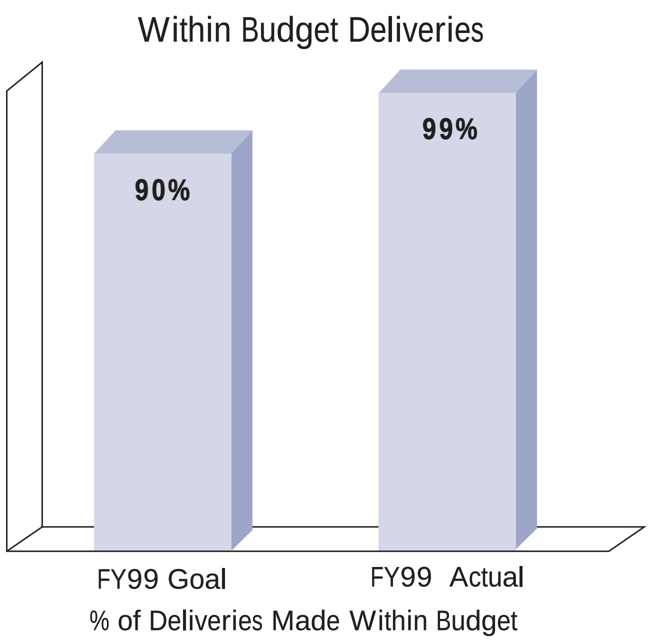
The success of the Information Services business area is largely determined by the satisfaction of its customers. DSDC's primary goal is to provide consistently responsive, best-value supplies and services to its customers. Accomplishment of this goal is achieved through improved productivity, quality and delivery. DSDC seeks to deliver 95% of products on time and within budget.

PERFORMANCE MEASURES

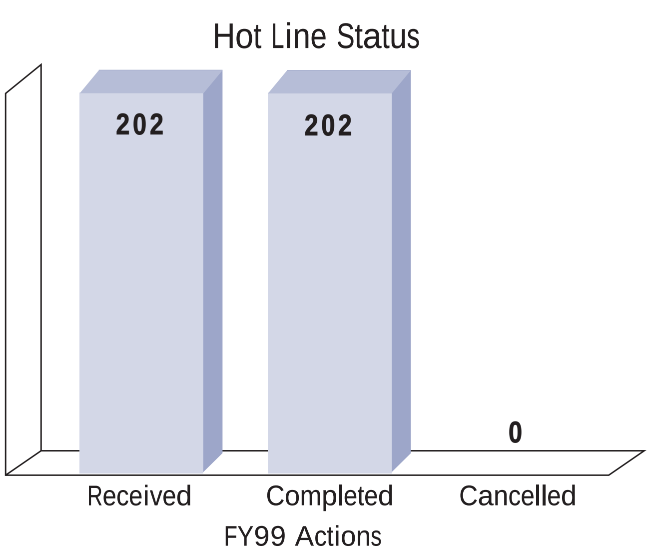
On-Time Delivery Rate: This measure relates directly to the DLA Strategic Plan goal of providing responsive, best-value supplies and services to our customers. It also has a direct relationship to customer satisfaction. This measure reflects the percentage of time that projects are delivered to the customer within 5% of the originally scheduled or re-baselined estimated time for completion. It is used by management to determine DSDC's ability to forecast project efforts. The reduction from last year's actual rate of just 1% is testament to the dedication of DSDC employees who continued to perform at high levels despite having been notified early that their Central Design Activity would be disestablished at the end of the year.



Within Budget Delivery Rate: This measure also relates to DLA Strategic Plan objective of meeting or beating our price commitments and reducing total costs. This measure reflects the percentage of time that projects are delivered to the customer within 5% of the originally estimated or re-baselined cost projections. It is used by management to measure the effectiveness of DSDC's ability to forecast project and task costs.



Hot Line Calls: This measure directly relates to DLA Strategic Plan objectives for customer satisfaction and product reliability. It identifies the quality of DSDC software products that are implemented as operational systems. The metric is the number of actual system defect calls received by the Hotline desk. The defects must be classified as application-based and not operational in nature.



Financial Performance Measures: The following table depicts the FY99 unit cost goal and actual for the DLA Systems Design Center (DSDC):

Financial Performance Measure	FY99 Goal	FY99 Actual
Unit Cost per Billable Hour	$63.26	$64.58

DSDC exceeded their unit cost goal in FY99 because the goal for billable productive hours was not met. Billable hours were not met because the DLA has shifted its focus from developing software in-house to acquiring it from outside vendors. Also contributing to this result was the combined effect of reduced end-strength and increased one-time overhead expenses as a result of Voluntary Separation Incentive Pay related to voluntary early retirement.

The Information Systems business area was disestablished effective September 30, 1999.

DLA Performance - Automated Printing Service

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OVERVIEW

The Defense Automated Printing Service (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 of all federal printing including the DAPS in-house capability. DAPS manages a worldwide printing, duplicating and document automation production and procurement network. DAPS manages this worldwide mission through a customer service network comprised of a Headquarters located at Mechanicsburg, Pennsylvania, 80 major field locations and 197 smaller document automation facilities. DAPS earned FY99 revenue of $380.3 million. DAPS primary customers are Air Force (18.0%), Navy (30.0%), Army (19.6%), Defense Agencies (21.5%) and non-DoD customers (10.9%).

MISSION

The DAPS provides automated printing services worldwide in support of America's Armed Forces, encompassing electronic conversion, retrieval, output and distribution 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. DAPS is the recognized leader in document automation and the customer-preferred provider of best-value 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 Department of Defense Plan to transition into the age of electronic documents and commercial business practices.

GOALS

DAPS is committed to the following:

- Consistently providing responsive, best-value products and services to its customers.
- Serving as catalyst for revolutionizing document automation services and customer business processes.
- Ensuring its workforce is enabled to deliver and sustain world class performance.
- Implementing technology for agile, responsive internal business solutions.
- Pursuing partnerships with government, industry and suppliers.

NEAR-TERM OBJECTIVES

DAPS continues to right-size its workforce. An end-strength reduction of 10.7% was effected in FY99 and a 5.5% reduction is planned for FY00. DAPS is continually striving to reduce costs, simplify organizational structure, eliminate unnecessary facilities, and ensure that equipment and personnel equate to workload. DAPS maintains a constant focus on its commitment to improve the quality of products and services while meeting or exceeding its customers' delivery requirements. The use of the universal IMPAC card for intra-government sales continues to increase with FY99 sales of $105.9 million or 27.9% of revenue.

FY99 ACCOMPLISHMENTS

- Procurement Gateway was selected to be highlighted in "Best IT Practices in Federal Government." Procurement Gateway, developed by DAPS, is a web-based Electronic Bidroom. It provides user-friendly on-line access to contract documents in real-time. Procurement Gateway and Electronic Document Access (EDA) were also recognized at DoD's

1999 Electronic Commerce Day as finalists for awards for partnering with large business.

- DAPS developed DocAccess On-line, a web-based system, enabling customers worldwide access to shop, order, track (both job status and funding), transfer and conduct business with DAPS. It was successfully implemented at 95 DAPS locations in FY99.

- DAPS provided technical support for conversion of all Presidential documents to digital and then to CD-ROM; thus, hardcopy White House publications ceased to exist as of April 1, 1999.

- DAPS was presented a White House "Closing the Circle" Award for its commitment to protecting the environment through the use of 20% or greater post-consumer recycled paper. DAPS increased use of recycled paper from 37% to 97% in an eight-month period.

- DAPS Headquarters relocated to the Naval Inventory Control Point in Mechanicsburg, PA from the DLA Headquarters Complex at Ft. Belvoir, VA completing a BRAC action.

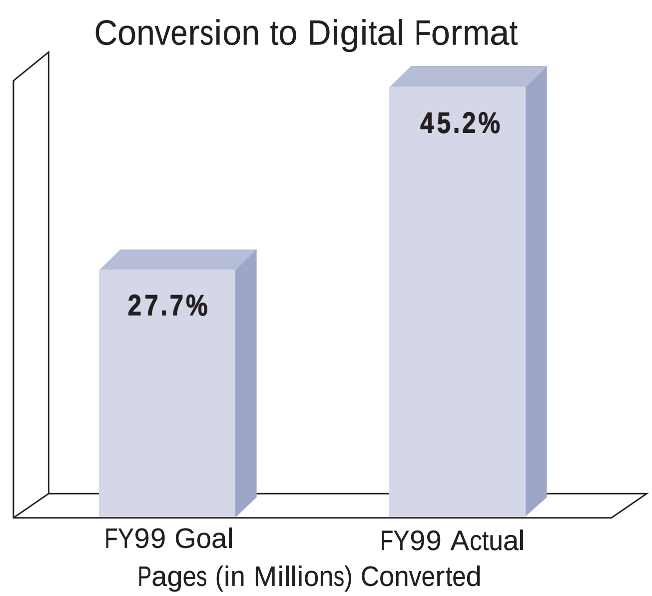
- DAPS began issuing "Smart Cards" at several Navy locations to military and civilian personnel heading for boot camp, training schools, or going aboard ships. Smart Cards contain personal, medical and dental information, as well as meal entitlements. Their electronic format provides convenient, instant access.

- The Secretary of the Air Force (AF) asked DAPS to test DocAccess On-Line to provide, distribute and print-on-demand requirements locally and worldwide. AF wants electronic access to DAPS products and services on all administrative publications and forms. The AF Electronic Transaction System (ETS) is a fully compliant AISs that manages inventory, distribution management and on-line access for administrative information products. ETS will eliminate 91 administrative publications and forms warehouses, resulting in savings of $187 million over a 10-year period.

- During FY99, significant improvements were made in the Defense Working Capital Accounting System (DWAS) used to account for the DAPS business area. These improvements enhance the accuracy and reliability of the data.

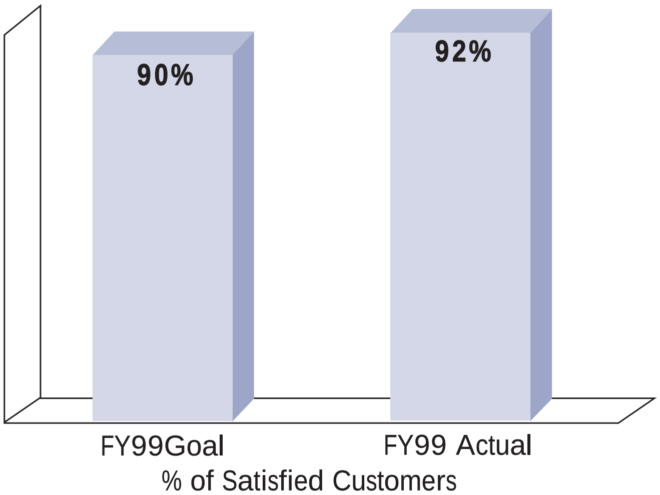
PERFORMANCE MEASURES

Conversion to Digital Format: This goal is tied to the DLA Strategic Plan goal to serve as a catalyst for the revolution in business affairs and acquisition reform. DAPS measures the number of pages (in millions) converted to digital format. This measure focuses on accelerating the use of document automation technology. Conversion of pages may be accomplished in-house or by contract and includes hardcopy to digital, system output to digital and from one form of digital to another. DAPS actual production of 45.2 million converted pages exceeded the goal of 27.7 million by 63% and was an increase of 88% from FY98. The goal was exceeded in FY99 largely because DAPS initiatives emphasizing automation, including several Defense Reform Initiative Decisions, served as a catalyst for DAPS customers to seek out this expertise in digital conversion.



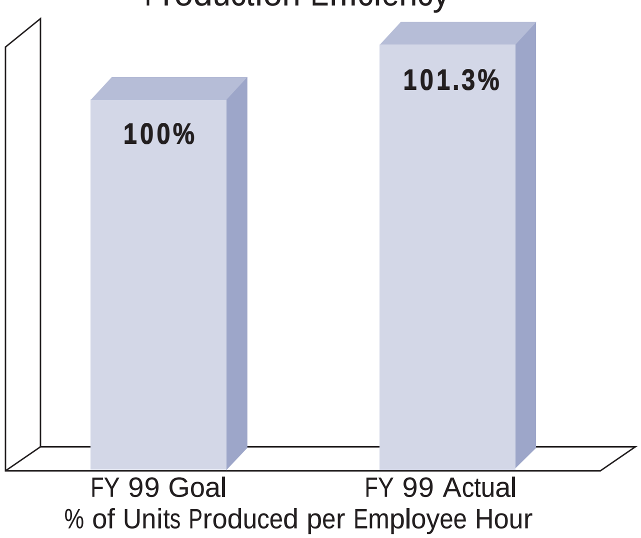
Customer Satisfaction: This metric ties to the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. DAPS uses a survey, professionally prepared and administered by an independent entity, of a statistical sampling of customers to determine an overall customer satisfaction rating. Satisfied customers are measured by the percentage of customers ranking DAPS performance from acceptable through high quality. The survey conducted during FY99 exceeded the goal of 90% by reaching a 92% customer satisfaction.

Customer Satisfaction



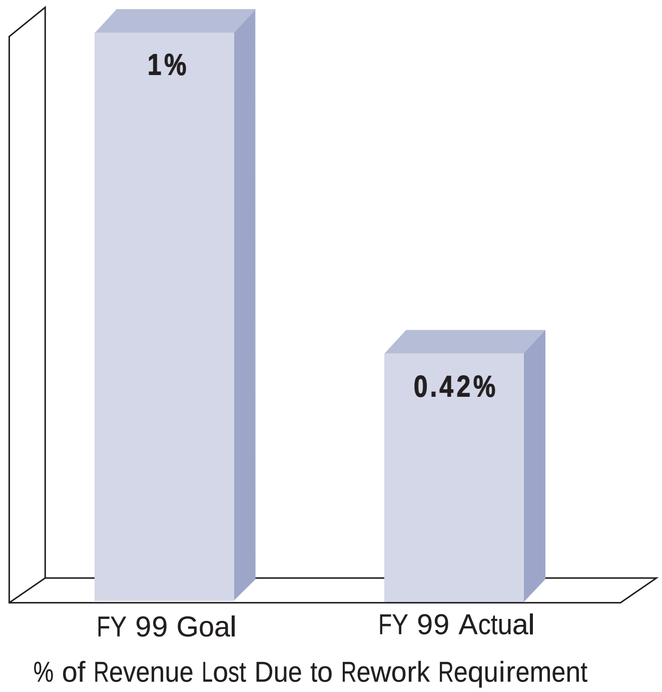
Production Efficiency Factor: This metric ties to the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. Production standards are established for each production process and are stated in terms of units produced per hour. The units are converted 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 101.3% for FY99.

Production Efficiency



In-House Rework Percentage: This metric ties directly to the DLA Strategic Plan goal of consistently providing responsive, best-value supplies and services to our customers. This metric helps determine the cost of re-work. It is calculated by dividing revenue loss from orders not accepted by the customer by the total in-house production revenue.

In-House Rework



Financial Performance Measures: In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. DAPS did not achieve its unit goal due to the reduction in workload, increase in document electronic conversion and one-time costs. DAPS' change in workload reflects the transition of the Department from hardcopy to digital documents. The number of pages converted to digital by DAPS in FY99 increased by 88% from FY98 to over 45 million. Hardcopy pages produced fell 12.5% from FY98 to FY99. This trend is expected to continue with a resulting decrease in total units and increase in unit cost.

Financial Performance Measures	FY99 Goal	FY99 Actual
Unit Cost per In-house Production Unit	.0390	.0495

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Management's Discussion and Analysis of the Financial Statements

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INTRODUCTION, PURPOSE AND LIMITATIONS OF FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity, 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 accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and revised by OMB. At times, the DLA is unable to implement all elements of the standards due to financial management systems limitations. The DLA continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

DISCUSSION AND ANALYSIS OF FISCAL YEAR OPERATIONS AND FINANCIAL CONDITION

The DLA DWCF business areas ended FY99 with total adjusted program costs of $15.9 billion and earned revenues of $15.8 billion, for a net loss of $237.2 million.

For FY99, the Supply business area finished the year with a net loss of $128.4 million. 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 sales during the year for depot maintenance support, prime vendor and stocked sales, along with support to the operations in Kosovo. These gains were more than offset by the unexpected rise in the cost of fuel.

The Distribution business area finished FY99 with a positive net operating result of $3.1 million. Contributing to this result were reduced costs in a number of areas including overocean transportation, storage and reimbursable support.

The Reutilization and Marketing business area showed a net loss of $65 million for FY99. A number of factors influenced this operating result. Workload was above plan due to the Kosovo support effort. Additionally, the Military Services turned in $1.1 billion more surplus property than anticipated, which significantly increased materiel processing costs. Costs related to a one-time asbestos disposal also negatively impacted the financial results. The commercial venture sales initiative has created a lag in revenue recognition for DRMS, which is also addressed in the Notes to Financial Statements. While this is known to have a material effect on the financial statements, an exact dollar amount impact cannot be determined. An additional contributor to the loss was a weakening scrap market that pushed down prices for ferrous, non-ferrous and non-metallic scrap.

At the end of FY99, the Information Services business area was disestablished. The shift to purchasing of programming code versus in-house development led the Agency to decide that the Systems Design Center was no longer needed. With the main function of the Information Services business area removed, management determined that the remaining Information Services functions could be best managed by the business areas themselves. In spite of increased one-time costs related to voluntary separation, the IS business area finished FY99 with a net loss of $11.8 million.

The Automated Printing Service business area finished FY99 with a net loss of $35.1 million. This is attributed to several factors: a $41 million decrease in in-house workload, a $29.1 million positive change in workload mix, unrecognized revenue of $3.0 million for commercial printing and other activities and unprogrammed costs of $22.1 million. These costs include $11.6 million related to clearing accounting system unmatched disbursements, GPO expenses of $3.7 million and settlement of a lawsuit in the amount of $1.9 million.

Pursuant to Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, DLA has conducted an evaluation of the management control systems. One of the objectives of the system of internal accounting is to provide reasonable assurance that the revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. The review of each system or system segment was performed by both DLA and the Defense Finance and Accounting Service and encompassed the accounting principles, standards, and related requirements prescribed by "A Guide to Federal Requirements for Financial Management Systems". As a result of the review, DLA has determined that its critical feeder and financial management systems are not in compliance with the FMFIA and cannot, with absolute certainty, produce reliable financial information that can be audited to the transaction event level. The Office of Inspector General, DoD has also reported that DLA's critical feeder and financial management systems are not in compliance with the FMFIA, Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger. Material weaknesses have been identified and reported in DLA's FY 99 Annual Statement of Assurance, and corrective action plans, along with estimated completion dates, have been developed and are currently being implemented. DLA has six operating financial feeder systems, with one of the six systems considered substantially in compliance with the GAO accounting principles, standards, and related requirements. The remaining five feeder systems contain one or more major non-conformances that preclude certification that the system is in substantial compliance with GAO guidelines. Those material non-conformances are also reported in the DLA Annual Statement of Assurance. In cases where an identified material weakness or nonconformance impacts the accounts reported in these Statements, it is annotated in the footnotes and/or the Management Representation Letter.

Principal Financial Statements

DEFENSE LOGISTICS AGENCY – DEFENSE WORKING CAPITAL FUND

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Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 1999
(Dollars Rounded to Thousands)

	FY 1999
ASSETS	
Entity Assets	
Intragovernmental	
Fund Balance with Treasury (Note 2)	$ 0
Investments, Net (Note 3)	0
Accounts Receivable (Note 4)	899,857
Other Assets (Note 5)	316
Total Intragovernmental	$ 900,173
Accounts Receivable, Net (Note 4)	159,449
Loans Receivable and Related Foreclosed Property, Net (Note 6)	0
Cash and Other Monetary Assets (Note 7)	0
Inventory and Related Property, Net (Note 8)	9,441,606
General Property, Plant and Equipment, Net (Note 9) (See Required Supplementary Stewardship Information)	984,827
Other Assets (Note 5)	443,995
Total Entity Assets	$ 11,930,050
Nonentity Assets	
Intragovernmental	
Fund Balance with Treasury (Note 2)	$ 0
Accounts Receivable (Note 4)	0
Other Assets (Note 5)	0
Total Intragovernmental	$ 0
Accounts Receivable, Net (Note 4)	0
Cash and Other Monetary Assets (Note 7)	0
Other Assets (Note 5)	0
Total Nonentity Assets	$ 0
Total Assets	**$ 11,930,050**
LIABILITIES	
Liabilities covered by Budgetary Resources	
Intragovernmental	
Accounts Payable	$ 601,673
Debt (Note 11)	0
Environmental Liabilities (Note 12)	0
Other Liabilities (Note 13)	199,036
Total Intragovernmental	$ 800,709
Accounts Payable	1,105,851
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	0
Environmental Liabilities (Note 12)	0
Other Liabilities (Note 13)	32,410
Total Liabilities covered by Budgetary Resources	$ 1,938,970
Liabilities not covered by Budgetary Resources	
Intragovernmental	
Accounts Payable	$ 0
Debt (Note 11)	0
Environmental Liabilities (Note 12)	0
Other Liabilities (Note 13)	98,728
Total Intragovernmental	$ 98,728
Accounts Payable	0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	292,688
Environmental Liabilities (Note 12)	0
Other Liabilities (Note 13)	99,411
Total Liabilities not covered by Budgetary Resources	$ 490,827
Total Liabilities	**$ 2,429,797**
NET POSITION (Note 15)	
Unexpended Appropriations	$ 0
Cumulative Results of Operations	9,500,253
Total Net Position	**$ 9,500,253**
Total Liabilities and Net Position	**$ 11,930,050**

The accompanying notes are an integral part of these statements

Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	FY 1999
Program Costs	
Intragovernmental	$ 918,090
With the Public	13,778,619
Total Program Cost	$ 14,696,709
(Less: Earned Revenues)	(14,459,545)
Net Program Costs	$ 237,164
Costs not assigned to Programs	$ 0
(Less: Earned Revenues not attributable to Programs)	0
Net Cost of Operations	**$ 237,164**
Deferred Maintenance (See Required Supplementary Information)	

Additional information included in Note 16.

The accompanying notes are an integral part of these statements

Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	FY 1999
Net Cost of Operations	**$ 237,164**
Financing Sources (other than exchange revenues)	
Appropriations used	0
Taxes and other nonexchange revenue	0
Donations - nonexchange revenue	0
Imputed financing (Note 17.B)	108,347
Transfers-in	145,283
(Transfers-out)	(1,692,230)
Other	403,532
Total Financing Sources (other than exchange revenues)	$ (1,035,068)
Net Results of Operations (Line 2H less Line 1)	$ (1,272,232)
Prior Period Adjustments (Note 17.A)	(217,364)
Net Change in Cumulative Results of Operations	$ (1,489,596)
Increase (Decrease) in Unexpended Appropriations	0
Change in Net Position	$ (1,489,596)
Net Position-Beginning of the Period	10,989,849
Net Position-End of the Period	**$ 9,500,253**

Additional information included in Note 17.

The accompanying notes are an integral part of these statements

Department of Defense
Defense Logistics Agency Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	FY 1999
BUDGETARY RESOURCES	
Budget Authority	$ 1,799,047
Unobligated Balance - Beginning of Period	(72,690)
Net Transfers Prior-Year Balance, Actual (+/-)	(45,000)
Spending Authority from Offsetting Collections	15,447,808
Adjustments (+/-)	(1,965,935)
Total Budgetary Resources	**$ 15,163,230**
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	$ 14,958,636
Unobligated Balances - Available	204,594
Unobligated Balances - Not Available	0
Total, Status of Budgetary Resources	**$ 15,163,230**
OUTLAYS	
Obligations Incurred	$ 14,958,636
Less: Spending Authority From Offsetting Collections and Adjustments	(15,448,110)
Obligated Balance, Net - Beginning of Period	4,572,349
Obligated Balance Transferred, Net	0
Less: Obligated Balance, Net - End of Period	(5,144,929)
Total Outlays	**$ (1,062,054)**

Additional information included in Note 18.

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Logistics Agency Working Capital Fund
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	FY 1999
OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	$ 14,958,636
Less: Spending Authority for Offsetting Collections and Adjustments	(15,448,110)
Donations Not in the Entity's Budget	0
Financing Imputed for Cost Subsidies	108,347
Transfers-in (Out)	0
Less: Exchange Revenue Not in the Entity's Budget	(4,052)
Other	180,526
Total Obligations as Adjusted and Nonbudgetary Resources	$ (204,653)
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	(609,470)
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	952,719
Financing Sources That Fund Costs of Prior Periods	(202,497)
Other - (Increases)/Decreases	0
Total Resources That Do Not Fund Net Costs of Operations	$ 140,752
COSTS THAT DO NOT REQUIRE RESOURCES	
Depreciation and Amortization	$ 129,396
Revaluation of Assets and Liabilities - Increases/(Decreases)	0
Other - Increases/(Decreases)	2,011
Total Costs That Do Not Require Resources	$ 131,407
Financing Sources Yet to be Provided	169,658
Net Cost of Operations	**$ 237,164**

Additional information included in Note 19.

The accompanying notes are an integral part of these statements

Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATING BALANCE SHEET
As of September 30, 1999
(Dollars Rounded to Thousands)

	Distribution Depots	Supply Management
ASSETS		
Entity Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 0	$ 0
Investments, Net (Note 3)	0	0
Accounts Receivable (Note 4)	395,436	876,546
Other Assets (Note 5)	124	82
Total Intragovernmental	$ 395,560	$ 876,628
Accounts Receivable, Net (Note 4)	621	117,180
Loans Receivable and Related Foreclosed Property, Net (Note 6)	0	0
Cash and Other Monetary Assets (Note 7)	0	0
Inventory and Related Property, Net (Note 8)	0	9,264,218
General Property, Plant and Equipment, Net (Note 9)	382,754	435,956
(See Required Supplementary Stewardship Information)		
Other Assets (Note 5)	49,919	381,117
Total Entity Assets	$ 828,854	$ 11,075,099
Nonentity Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 0	$ 0
Accounts Receivable (Note 4)	0	0
Other Assets (Note 5)	0	0
Total Intragovernmental	$ 0	$ 0
Accounts Receivable, Net (Note 4)	0	0
Cash and Other Monetary Assets (Note 7)	0	0
Other Assets (Note 5)	0	0
Total Nonentity	$ 0	$ 0
Total Assets	**$ 828,854**	**$ 11,075,099**
LIABILITIES		
Liabilities covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	$ 283,973	$ 636,479
Debt (Note 11)	0	0
Environmental Liabilities (Note 12)	0	0
Other Liabilities (Note 13)	2,805	138,066
Total Intragovernmental	$ 286,778	$ 774,545
Accounts Payable	$ 263,069	$ 677,265
Military Retirement Benefits and Other Employment	0	0
Related Actuarial Liabilities (Note 14)	0	0
Other Liabilities (Note 13)	6,793	12,337
Total Liabilities covered by Budgetary Resources	$ 556,640	$ 1,464,147

Reutilization and Marketing Service	Automated Printing Service	Information Service	Combined Total	Intra-entity elimination	Consolidated Totals
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0	0
15,796	147,574	9,548	1,444,900	(545,043)	899,857
110	0	0	316	0	316
$ 15,906	$ 147,574	$ 9,548	$ 1,445,216	$ (545,043)	$ 900,173
38,804	2,843	1	159,449	0	159,449
0	0	0	0	0	0
0	0	0	0	0	0
166,598	10,790	0	9,441,606	0	9,441,606
127,695	31,429	6,993	984,827	0	984,827
7,421	0	5,537	443,995	0	443,995
$ 356,424	$ 192,636	$ 22,079	$12,475,093	$ (545,043)	$11,930,050
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0		
0	0	0	0		
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 356,424	**$ 192,636**	**$ 22,079**	**$12,475,093**	**$ (545,043)**	**$11,930,050**
$ 44,996	$ 173,341	$ 7,927	$ 1,146,716	$ (545,043)	$ 601,673
0	0	0	0	0	0
0	0	0	0	0	0
57,364	386	415	199,036	0	199,036
$ 102,360	$ 173,727	$ 8,342	$ 1,345,752	$ (545,043)	$ 800,709
$ 84,495	$ 73,394	$ 7,628	$ 1,105,851	$ 0	$ 1,105,851
0	0	0	0	0	0
0	0	0	0	0	0
8,039	4,216	1,025	32,410	0	32,410
$ 194,894	$ 251,337	$ 16,995	$ 2,484,012	$ (545,043)	$ 1,938,970

	Distribution Depots	Supply Management
Liabilities not covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	$ 0	$ 0
Debt (Note 11)	0	0
Environmental Liabilities (Note 12)	0	0
Other Liabilities (Note 13)	34,297	46,391
Total Intragovernmental	$ 34,297	$ 46,391
Accounts Payable	0	0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 14)	$ 101,675	$ 137,530
Environmental Liabilities (Note 12)	0	0
Other Liabilities (Note 13)	28,885	48,446
Total Liabilities not covered by Budgetary Resources	$ 164,857	$ 232,367
Total Liabilities	**$ 721,497**	**$ 1,696,514**
NET POSITION (Note 15)		
Unexpended Appropriations	0	0
Cumulative Results of Operations	107,357	9,378,586
Total Net Position	**$ 107,357**	**$ 9,378,586**
Total Liabilities and Net Position	**$ 828,854**	**$11,075,099**

Reutilization and Marketing Service	Automated Printing Service	Information Service	Combined Total	Intra-entity elimination	Consolidated Totals
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
0	0	0	0	0	0
0	0	0	0	0	0
9,192	3,780	5,068	98,728	0	98,728
$ 9,192	$ 3,780	$ 5,068	$ 98,728	$ 0	$ 98,728
0	0	0	0	0	0
$ 27,251	$ 11,206	$ 15,026	$ 292,688	$ 0	$ 292,688
0	0	0	0	0	0
8,683	5,708	7,689	99,411	0	99,411
$ 45,126	$ 20,694	$ 27,783	$ 490,827	$ 0	$ 490,827
$ 240,020	$ 272,031	$ 44,778	$ 2,974,840	$ (545,043)	$ 2,429,797
0	0	0	0	0	0
116,404	(79,395)	$ (22,699)	$ 9,500,253	$ 0	$ 9,500,253
$ 116,404	**$ (79,395)**	**$ (22,699)**	**$ 9,500,253**	**$ 0**	**$ 9,500,253**
$ 356,424	**$ 192,636**	**$ 22,079**	**$ 12,475,093**	**$ (545,043)**	**$ 11,930,050**

The accompanying notes are an integral part of these statements

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Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	Total	Intra-entity eliminations	Consolidated
Totals			
Program Costs			
Distribution Depots			
Intragovernmental	$ 428,392		
With the Public	1,019,702		
Total Program Cost	1,448,094		
(Less: Earned Revenues)	(1,451,145)		
Net Program Costs	$ (3,051)		
Supply Management			
Intragovernmental	$ 1,646,482		
With the Public	12,044,658		
Total Program Cost	13,691,140		
(Less: Earned Revenues)	(13,562,700)		
Net Program Costs	$ 128,440		
Reutilization and Marketing			
Intragovernmental	$ 81,468		
With the Public	272,370		
Total Program Cost	353,838		
(Less: Earned Revenues)	(288,885)		
Net Program Costs	$ 64,953		
Defense Automated Printing Service			
Intragovernmental	$ 79,429		
With the Public	335,980		
Total Program Cost	415,409		
(Less: Earned Revenues)	(380,340)		
Net Program Costs	$ 35,069		
Information Services			
Intragovernmental	$ 15,244		
With the Public	105,909		
Total Program Cost	121,153		
(Less: Earned Revenues)	(109,400)		
Net Program Costs	$ 11,753		
Total Program Costs			
Intragovernmental	$ 2,251,015	$ (1,332,925)	$ 918,090
With the Public	13,778,619	0	13,778,619
Total Program Cost	16,029,634	$ (1,332,925)	$14,696,709
(Less: Earned Revenues)	(15,792,470)	1,332,925	(14,459,545)
Net Program Costs	**$ 237,164**	**$ 0**	**$ 237,164**
Costs not assigned to Programs	$ 0	$ 0	$ 0
(Less: Earned Revenues not attributable to Programs)	0	0	0
Net Cost of Operations	**$ 237,164**	**$ 0**	**$ 237,164**
Deferred Maintenance			
(See Required Supplementary Information)			

Additional information included in Note 16

The accompanying notes are an integral part of these statements

Department of Defense
Defense Logistics Agency Working Capital Fund
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	Distribution Depots	Supply Management
Net Cost of Operations	**$ (3,051)**	**$ 128,440**
Financing Sources (other than exchange revenues)		
Appropriations used	0	0
Taxes and other nonexchange revenue	0	0
Donations - nonexchange revenue	0	0
Imputed financing (Note 17.B)	37,638	50,911
Transfers-in	295,672	5,433,829
(Transfers-out)	(417,234)	(6,577,977)
Other	0	403,532
Total Financing Sources (other than exchange revenues)	$ (83,924)	$ (689,705)
Net Results of Operations (Line 2H less Line 1)	$ (80,873)	$ (818,145)
Prior Period Adjustments (Note 17.A)	(24,736)	(157,576)
Net Change in Cumulative Results of Operations	$ (105,609)	$ (975,721)
Increase (Decrease) in Unexpended Appropriations	0	0
Change in Net Position	$ (105,609)	$ (975,721)
Net Position-Beginning of the Period	212,966	10,354,307
Net Position-End of the Period	**$ 107,357**	**$ 9,378,586**

Additional information included in Note 17

Reutilization and Marketing Service	Automated Printing Service	Information Service	Combined Total	Intra-entity elimination	Consolidated Totals
$ 64,953	**$ 35,069**	**$ 11,753**	**$ 237,164**	**$ 0**	**$ 237,164**
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
10,088	4,148	5,562	108,347	0	108,347
171,281	934	5,613	5,907,329	(5,762,046)	145,283
(376,177)	(68,279)	(14,609)	(7,454,276)	5,762,046	(1,692,230)
0	0	0	403,532	0	403,532
$ (194,808)	$ (63,197)	$ (3,434)	$ (1,035,068)	$ 0	$ (1,035,068)
$ (259,761)	$ (98,266)	$ (15,187)	$ (1,272,232)	$ 0	$ (1,272,232)
(27,028)	(4,241)	(3,783)	(217,364)	0	(217,364)
$ (286,789)	$ (102,507)	$ (18,970)	$ (1,489,596)	$ 0	$ (1,489,596)
0	0	0	0	0	0
$ (286,789)	$ (102,507)	$ (18,970)	$ (1,489,596)	$ 0	$ (1,489,596)
403,193	23,112	(3,729)	10,989,849	0	10,989,849
$ 116,404	**$ (79,395)**	**$ (22,699)**	**$ 9,500,253**	**$ 0**	**$ 9,500,253**

Department of Defense
Defense Logistics Agency Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	Distribution Depots	Supply Management
BUDGETARY RESOURCES		
Budget Authority	$ 0	$ 1,688,465
Unobligated Balance - Beginning of Period	39,541	9,535
Net Transfers Prior-Year Balance, Actual (+/-)	0	(45,000)
Spending Authority from Offsetting Collections	1,454,555	13,267,705
Adjustments (+/-)	0	(1,962,919)
Total Budgetary Resources	$ 1,494,096	$ 12,957,786
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	$ 1,363,436	$ 12,953,356
Unobligated Balances - Available	130,660	4,430
Unobligated Balances - Not Available	0	0
Total, Status of Budgetary Resources	$ 1,494,096	$ 12,957,786
OUTLAYS		
Obligations Incurred	$ 1,363,436	$ 12,953,356
Less: Spending Authority From Offsetting Collections and Adjustments	(1,454,555)	(13,268,008)
Obligated Balance, Net - Beginning of Period	134,611	4,150,653
Obligated Balance Transferred, Net	0	0
Less: Obligated Balance, Net - End of	(286,900)	(4,693,961)
Total Outlays	$ (243,408)	$ (857,960)

Additional information included in Note 18

The accompanying notes are an integral part of these statements.

Reutilization and Marketing Service	Defense Automated Printing Service	Information Service	Combined Total
$ 101,282	$ 9,300	$ 0	$ 1,799,047
13,235	(174,387)	39,386	(72,690)
0	0	0	(45,000)
276,462	377,586	71,500	15,447,808
0	0	(3,016)	(1,965,935)
$ 390,979	$ 212,499	$ 107,870	$ 15,163,230
$ 338,862	$ 189,919	$ 113,063	$ 14,958,636
52,117	22,580	(5,193)	204,594
0	0	0	0
$ 390,979	$ 212,499	$ 107,870	$ 15,163,230
$ 338,862	$ 189,919	$ 113,063	$ 14,958,636
(276,461)	(377,586)	(71,500)	(15,448,110)
123,933	195,388	(32,236)	4,572,349
0	0	0	0
(148,669)	(5,705)	(9,694)	(5,144,929)
$ 37,665	$ 2,016	$ (366)	$ (1,062,054)

Department of Defense
Defense Logistics Agency Working Capital Fund
COMBINING STATEMENT OF FINANCING
For the year ended September 30, 1999
(Dollars Rounded to Thousands)

	Distribution Depots	Supply Management
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	$ 1,363,436	$12,953,356
Less: Spending Authority for Offsetting Collections and Adjustments	(1,454,555)	(13,268,008)
Donations Not in the Entity's Budget	0	0
Financing Imputed for Cost Subsidies	37,638	50,911
Transfers-in (Out)	0	0
Less: Exchange Revenue Not in the Entity's Budget	0	(4,052)
Other	0	0
Total Obligations as Adjusted and Nonbudgetary	$ (53,481)	$ (267,793)
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	31,479	(542,888)
Costs Capitalized on the Balance	(102,246)	980,554
Financing Sources That Fund Costs of Prior	(24,736)	(144,127)
Other - (Increases)/Decreases	0	0
Total Resoures That Do Not Fund Net Costs of	$ (95,503)	$ 293,539
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	$ 89,107	$ 23,321
Revaluation of Assets and	0	0
Other - Increases/(Decreases)	0	0
Total Costs That Do Not Require	$ 89,107	$ 23,321
Financing Sources Yet to be Provided	56,826	79,373
Net Cost of Operations	**$ (3,051)**	**$ 128,440**

Additional information included in Note 19

The accompanying notes are an integral part of these statements.

Reutilization and Marketing Service	Defense Automated Printing Service	Information Service	Combined Total
$ 338,862	$ 189,919	$ 113,063	$ 14,958,636
(276,461)	(377,586)	(71,500)	(15,448,110)
0	0	0	0
10,088	4,148	5,562	108,347
0	0	0	0
0	0	0	(4,052)
0	180,526	0	180,526
$ 72,489	$ (2,993)	$ 47,125	$ (204,653)
8,079	(62,776)	(43,364)	(609,470)
(13,823)	89,453	(1,219)	952,719
(27,028)	(2,822)	(3,784)	(202,497)
0	0	0	0
$ (32,772)	$ 23,855	$ (48,367)	$ 140,752
$ 9,257	$ 6,021	$ 1,690	$ 129,396
0	0	0	0
0	2,011	0	2,011
$ 9,257	$ 8,032	$ 1,690	$ 131,407
15,979	6,175	11,305	169,658
$ 64,953	**$ 35,069**	**$ 11,753**	**$ 237,164**

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Notes to the Principal Financial Statements

DEFENSE LOGISTICS AGENCY – DEFENSE WORKING CAPITAL FUND

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NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the DLA, as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DLA in accordance with the DoD Financial Management Regulation(DoDFMR) as adapted from the Office of Management Bulletin (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements" and to the extent possible the Statements of Federal Financial Accounting Standards (SFFAS). The DLA financial statements are in addition to the financial reports also prepared by DLA pursuant to OMB directives that are used to monitor and control DLA's use of budgetary resources.

DLA is unable to implement all elements of the SFFAS due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for DLA's major asset and liability categories are derived from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations and not the current emphasis of business-like financial management. As a result, DLA cannot currently implement all elements of the SFFAS. DLA continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems.

There are other instances when DLA's application of the accounting standards is different from the auditor's interpretation of the standards. In those situations, DLA has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent. Financial statement elements impacted by these differences of interpretations include financing payments under firm fixed price contracts, operating materials and supplies (OM&S), and disposal liabilities.

A more detailed explanation of these financial statement elements is discussed in the applicable footnote.

Reporting Entity

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 warfighter. In addition, DLA provides support to relief efforts during times of national emergency. FY 1999 represents the fourth year that the Department will prepare and have audited DoD Agency-wide financial statements as required by the CFO Act and the GMRA.

The accounts used to prepare the statements are classified as entity/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. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity. The DLA organization has five active entity sub-organizations funded thought the DWCF. These sub-organizations are referred to herein as activity groups and are as follows:

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

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

The Defense Reutilization and Marketing Service Activity Group (DRMS) provides reutilization services which include receiving, classifying, segregating, demilitarizing, accounting for and reporting excess materiel 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 materiel. The appropriation symbol is 97X4930.5N.

The Information Services Activity Group provides information management support. The appropriation symbol is 97X4930.5F50.

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

The accompanying financial statements account for all resources for which DLA is responsible except that information relative to classified assets, programs, and operations have been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. When possible, the financial statements are presented on the accrual basis of accounting as required by federal financial accounting standards. For FY 1999, DLA's financial management systems are unable to meet all of the requirements for full accrual accounting. Efforts are underway to bring the DoD systems into compliance with all elements of the SFFAS.

Budgets and Budgetary Accounting

DLA's major activities are funded through general, working capital (revolving funds), trust, special, and deposit funds.

The DoD expanded the use of business like financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the Defense Working Capital Funds (DWCFs). The DWCF's (the Funds) operate with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The Funds build on revolving fund principles previously used for industrial and commercial-type activities. The DoD's working capital funds include industrial and commercial type transactions, e.g., supply management, distribution depot and depot maintenance type activity groups, and are composed of four divisions administered by the Departments of the Army, Navy, Air Force, and Defense Agencies. These activities provide goods and services on a commercial-like basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

Basis of Accounting

Transactions generally are recorded on a budgetary basis, but are required to be reported on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds. The effect of known intrafund transactions are eliminated.

In addition, DLA identifies programs based upon the major appropriation groups provided by Congress. DLA is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the SFFAS No. 4 with the need to keep the financial statements from becoming overly voluminous.

Revenues and Other Financing Sources

Exchange revenue is recognized at the point the rendered service is completed and billed, or at the point 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 for these billings. Revenue is not earned for the DRMS activity groups reutilization, transfer, and donation programs.

Revenue for business fund activities is recognized according to the percentage of completion method. For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because DLA's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items in an attempt to report expenses when incurred. Expenditures for capital and other long-term assets are not recognized as expenses until consumed in the DLA's operations. Unexpended appropriations are recorded as equity of the U.S. Government.

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, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were 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 interest costs are not apportioned to federal agencies. DLA's 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 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's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DLA funds a portion of the civilian and military pensions. Reporting civilian pension benefits 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 for 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 Trust Fund (MRTF) financial statements. The DoD recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements.

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. However, DLA, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, the DLA provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. Internal DoD intragovernmental balances were then eliminated. In addition, DLA implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide thereby eliminating and 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.

Funds with the U.S. Treasury and Cash

DLA's financial resources are maintained in U.S. Treasury accounts. Cash collections, disbursements, and adjustments are processed worldwide at Defense Finance and Accounting Service (DFAS) and Military Service disbursing stations as well as 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. In addition, the DFAS centers and the U.S. Army Corps of Engineers Finance Center submit reports to Treasury, by appropriation, on collections received and disbursements issued. Treasury then records this information to the appropriation Fund Balance With Treasury (FBWT) account maintained in the Treasury's system. Differences between DLA's recorded balance in the FBWT account and Treasury's FBWT often result and are reconciled. Material Disclosures are provided at Note 2.

Foreign Currency

DLA does not conduct a significant portion of its operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign Currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified. Material disclosures are provided at Note 7.

Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Code of Federal Regulations (4 CFR 101) prohibits the write-off of receivables from another federal agency. As such, no allowance for estimated uncollectible amounts is recognized for these receivables. Material disclosures are provided at Note 4.

Loans Receivable

DLA Activity Groups do not lend money; therefore, DLA does not have any loans receivable.

Inventories and Related Property

Inventories are reported at their Latest Acquisition Cost (LAC) adjusted for holding gains and losses to approximate historical cost. The LAC method is used because inventory data is maintained in logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property."

The related property portion of the amount reported on the Inventory and Related Property line includes OM&S, stockpile materials, seized property, and forfeited property. OM&S are valued at standard purchase price. Ammunition and munitions that are not held for sale are treated as OM&S. The DoD is moving to the consumption method of accounting for OM&S in future years, except in those cases that meet the requirement for the purchase method as defined in the SFFAS No. 3.

Material disclosures related to inventory and related property are provided at Note 8.

Investments in U.S. Treasury Securities

DLA Activity Groups do not invest in U.S. Government securities.

General Property' Plant and Equipment (PP&E)

General Property, Plant, and Equipment (PP&E) assets are capitalized when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD contracted with two certified public accounting firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. Both studies recommended that the DoD retain its current capitalization threshold of $100,000. All General PP&E, other than land, is depreciated on a straight-line basis unless otherwise noted. General PP&E land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized.

For entities operating as business type activities (working capital funds), all PP&E used in the performance of their mission shall be categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. This does not preclude working capital fund activities from reporting Heritage Assets they own that are not used in the performance of their mission.

Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid and deferred charges at the time of prepayment and reported as an asset on the Balance Sheet. Prepaid charges are recognized as expenditures and expenses when the related goods and services are received.

Leases

Generally, lease payments are for the rental of equipment, space, and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor. Capital assets overseas are purchased with appropriated funds; however, title is retained by the host country. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses during the period.

DLA is committed to operating leases and rental agreements. Generally, these leases and agreements are for the rental of equipment, space and operating facilities. Payments under these operating leases are expensed as incurred.

DLA may also be party (as lessee) to a limited number of leases that meet the criteria of capital leases. However, DLA's accounting systems do not allow for the identification of these arrangements as capital leases. Therefore, payments under these arrangements are not capitalized, but expensed as incurred.

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 upon a percentage of completion. In accordance with the SFFAS No. 1 "Accounting for Selected Assets and Liabilities," these payments are treated as work in process and are not reported as advances or prepayments in the "Other Assets" line item. 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. DLA treats these payments as advances or prepayments because 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, 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. DLA does not believe that the SFFAS No. 1 addresses this type of financing payment. The auditor's disagree with DLA's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Liabilities and Contingencies

DLA engaged in contractual commitments requiring future financial obligations. Disclosure of some of these commitments is required. Adoptions of these disclosures for DLA's commitments are still evolving.

The SFFAS 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. DLA only records loss contingencies. These contingencies are 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. Other contingencies are disclosed 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 collectibility of receivables, pending or threatened litigation, possible claims and assessments. DLA's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, 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 FY reflect current pay rates for the leave that is earned but not taken. Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Equity

Equity 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 neither legal liabilities for payments have been incurred nor actual payments made.

Cumulative results of operations for working capital funds (WCF) represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Treaties for Use of Foreign Bases

DLA has not entered into any treaties for the use of foreign bases.

Comparative Data

Comparative data is not required by OMB 97-01 until FY 2000 annual financial statements. Comparative date will be presented starting in FY 2000.

Undelivered Orders

DLA was obligated to pay for undelivered orders (goods and services that have been ordered but not yet received) amounting to $5.8 billion at fiscal-year end. No liability for payment has been established in the financial statements because goods/services have yet to be delivered.

NOTE 2. FUND BALANCES WITH TREASURY

(Dollars Rounded to Thousands)

Fund Balances (Not Applicable to DLA)

Fund Balance Per Treasury Versus Agency (Not Applicable to DLA)

Explanation of Reconciliation Amount

The Cumulative from Inception Undistributed Disbursement amount of which was used to adjust Accounts Payable is the supportable value for undistributed disbursements as of September 30, 1999. The current year change in the undistributed adjustment to funds disbursed in FY 1999 is the difference between September 30, 1998, Cumulative from Inception Undistributed Disbursements (which included supported and unsupported undistributed disbursements) and the supported net undistributed disbursements used for the FY 1999 adjustment to Accounts Payable.

Other Information Related to Fund Balance withTreasury

For FY 1999 CFOA Financial Statement preparation, DoD required all applicable Defense Working Capital Fund(DWCF) reporting entities to transfer current year collections and disbursements for specific business areas to the component level on September 30, 1999. This was done so that all DWCF Fund Balance With Treasury(FBWT) amounts were reflected in the component column on the Balance Sheet of the DoD Agency-Wide Financial Statements.

NOTE 3. INVESTMENTS, NET (NOT APPLICABLE TO DLA)

NOTE 4. ACCOUNTS RECEIVABLE

(Dollars Rounded to Thousands)

	Gross Amount Due	[Allowance for Estimated Uncollectibles]	Net Amount Due
Entity Receivables			
Intragovernmental	$ 899,857	N/A	$ 899,857
With the Public	$ 159,449	$ 0	$ 159,449
Non-Entity Receivables			
Intragovernmental			
Cancelled appropriations	$ 0	N/A	$ 0
Other	$ 0	N/A	$ 0
With the Public			
Cancelled appropriations	$ 0	$ 0	$ 0
Other	$ 0	$ 0	$ 0

Allowance Method Used

DLA has not established an allowance for uncollectible accounts because the majority of its revenues are the result of sales to other federal entities from which, due to the nature of federal government, there are virtually no bad debts. Additionally, DLA has generally not experienced significant uncollectible accounts with its customers outside of the federal government.

Other Information

The total amount used to adjust accounts receivable for DLA was the FY92-99 amount of unsupportable undistributed collections of ($71.7 million). This total is distributed among the five DLA business areas as stated below:

The amount used to adjust accounts receivable for DLA Distribution Depots (5B) was the FY92-99 amount of unsupportable undistributed collections of $215.2 million.

The amount used to adjust accounts receivable for DLA Supply Management (5C) was the FY92-99 amount of unsupportable undistributed collections of ($333.2 million).

The amount used to adjust accounts receivable for DLA Printing Service (5G) was the FY92-99 amount of unsupportable undistributed collections of $38.1 million.

The amount used to adjust accounts receivable for DLA Defense Reutilization & Marketing Service (5N) was the FY92-99 amount of unsupportable undistributed collections of $10.8 million.

The amount used to adjust accounts receivable for DLA Information Services (5F5) was the FY92-99 amount of unsupportable undistributed collections of ($2.6 million).

NOTE 5. OTHER ASSETS

(Dollars Rounded to Thousands)

Other Entity Assets

Intragovernmental	
Assets Returned for Credit	$ 0
Advances and Prepayment	316
Other	0
Total Intragovernmental	$ 316
Other	
Outstanding Contract Financing Payments	$ 178,707
Equipment Not in Use/Deposits and Advances	265,288
Total Other	$ 443,995

Other Information related to entity assets

DLA has reported financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, 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, 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. DLA does not believe that the Statement of Federal Financial Accounting Standard (SFFAS) No. 1 addresses this type of financing payment. The auditors disagree with DLA's application of the accounting standard pertaining to advances and prepayments because they believe that the SFFAS No. 1 is applicable to this type of financing payment.

Other Non-Entity Assets

Intragovernmental	
	$ 0
Property in the Hands of Contractors	0
Total Intragovernmental	$ 0
Other	
Property in the Hands of Contractors	$ 0
	0
Total Other	$ 0

NOTE 6. LOANS RECEIVABLE AND RELATED FORECLOSED PROPERTY, NET (NOT APPLICABLE TO DLA)

NOTE 7. CASH AND OTHER MONETARY ASSETS (NOT APPLICABLE TO DLA)

NOTE 8. SUMMARY OF INVENTORY AND OTHER RELATED PROPERTY, NET

(Dollars Rounded to Thousands)

	Amount
Inventory, Net (Note 8.A.)	$ 9,430,816
Operating Materials and Supplies, Net (Note 8.B.)	10,790
Stockpile Materials, Net (Note 8.C.)	0
Seized Property	0
Forfeited Property	0
Goods Held Under Price Support and Stabilization Programs	0
Total	**$ 9,441,606**

NOTE 8 A. INVENTORY, NET

(Dollars Rounded to Thousands)

	Inventory Amount	Allowance for Gains (Losses)	Inventory, Net	Valuation Method
Inventory Categories				
Available and Purchased for Resale	$ 8,032,535	$ (310,028)	$ 7,722,507	
Held in Reserve for Future Sale	1,485,996	0	1,485,996	
Held for Repair	16,845	0	16,845	
Excess, Obsolete, and Unserviceable	205,468	0	205,468	
Raw Materials	0	0	0	
Work in Process	0	0	0	
Total	**$ 9,740,844**	**$ (310,028)**	**$ 9,430,816**	

Legend: Valuation Methods

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realized Value
O = Other

Restrictions on Inventory Use, Sale, or Disposition

Inventory Held in Reserve for Future Sale - This category includes inventory held for research or reclassification. These inventory units are held until final disposition and are not available for immediate sale.

War Reserve Materials - War Reserve Materiel includes Fuel and Subsistence items that are considered restricted. The value of the war reserve materiel for FY 1999 is $1,3 billion.

Other Information

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 completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

Available and Purchased for Resale - This category of inventory includes most supply system materiel that is in an issuable condition. This category also includes inventory intransit. These are inventories intransit 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.

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 materiel. 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 and also includes damaged inventory that is not economical to repair. These assets are written down to its net realizable value (2.9%) 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's general ledger.

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.

Inventories are valued at (1) approximate historical cost in accordance with Statement of Federal Financial Accounting Standards 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 return 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, gains or losses that resulted from valuation changes for inventory items were recognized and reported in the Statement of Net Cost immediately and included in the calculation of the cost of goods sold. Official accounting guidance requires that this amount be recognized upon the sale or disposal of materiel, 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, however, located in the trial balances that comprise the financial statements, but is calculated in a spreadsheet approved by The Office of the Under Secretary of Defense and DFAS-HQ. The reason for the allowance account is to provide an accurate representation of inventory at historical cost. This change in accounting principle affect both the Balance Sheet and Statement of Net Cost using an estimate.

Condition Code L inventories are items being held for research or reclassification. As a result of this inventory being held until final disposition, this inventory is not available for immediate sale and will be classified as reserve for future sale.

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 all these transactions reflects improved accuracy in SAMMS inventory quantities and dollar values.

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

NOTE 8 B. OPERATING MATERIALS AND SUPPLIES (OM&S), NET

(Dollars Rounded to Thousands)

	OM&S Amount	Allowance for Gains (Losses)	OM&S Net	Valuation Method
OM&S				
Held for Use	$ 10,790	$ 0	$ 10,790	Other
Held in Reserve for Future Use	0	0	0	
Excess, Unserviceable, and Obsolete	0	0	0	
Total	**$ 10,790**	**$ 0**	**$ 10,790**	

Legend: Valuation Methods
LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

Restrictions on operating materials and supplies

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

Other Information

Operating Materials & 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 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 completeness and existence of the OM&S quantities used to derive the values reported in the financial statements.

DLA attempts to use the consumption method of accounting for OM&S where DLA believes it to be more cost beneficial than the purchase method. 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 Department has reached an agreement with the Office of Management and Budget (OMB), the General Accounting Office (GAO) and the Inspector General, Department of Defense (IG, DoD) 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 FY 1999, 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. Operating materials and supplies held for sale are valued using the weighted-average method.

NOTE 8 C. STOCKPILE MATERIALS, NET

(Dollars Rounded to Thousands)

	Stockpile Material & Amount	Allowance for (Losses)	Stockpile Materials, Net	Valuation Method
Stockpile				
Held for Sale*	$ 0	$ 0	$ 0	
Held in Reserve for Future Sale	0	0	0	
Total	$ 0	$ 0	$ 0	

Restrictions on stockpile materials and supplies

DLA does not have any stockpile materials.

Other Information

* Not Held for sale in the normal course of business.

Legend: Valuation Methods

LAC = Latest Acquisition Cost
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other

NOTE 8 D. SEIZED PROPERTY

DLA does not have any seized property.

NOTE 8 E. FORFEITED PROPERTY, NET

DLA does not have any forfeited property.

NOTE 8 F. GOODS HELD UNDER PRICE SUPPORT AND STABILIZATION PROGRAMS, NET

DLA does not have any goods held under price support and stabilization programs.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E), NET

(Dollars Rounded to Thousands)

	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 0	N/A	$ 0
Buildings,Structures, and Facilities	S/L	20	1,692,248	$(1,068,075)	624,173
Leasehold Improvements	S/L	5	531	$ 0	531
ADP Software	S/L	10	144,827	(117,679)	27,148
Equipment	S/L	10	614,378	(430,482)	183,896
Assets Under Capital Lease	S/L		0	0	0
Construction-In-Progress	N/A	N/A	148,767	N/A	148,767
Other	S/L		312	0	312
Total			$ 2,601,063	$(1,616,236)	$ 984,827

Other Information

The value of DLA PP&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 PP&E personal property (Major Classes of ADP Software and Equipment) in the possession of contractors is not included in the values reported above. The Department of Defense presently is reviewing its process for reporting these amounts in an effort to determine the best method to annually collect this information. However, preliminary results of the Department's review have indicated that the value of non-fully depreciated PP&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.

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 General PP&E has not been finalized.

NOTE 9 A. ASSETS UNDER CAPITAL LEASE (NOT APPLICABLE TO DLA)

NOTE 10. RESERVE FOR FUTURE USE

NOTE 11. DEBT (NOT APPLICABLE TO DLA)

NOTE 12 A. ENVIRONMENTAL LIABILITIES COVERED BY BUDGETARY RESOURCES

(Dollars Rounded to Thousands)

Intragovernmental (Not Applicable to DLA)

With the Public (Not Applicable to DLA)

Other Information

There are no Environmental Cleanup Liabilities for the DLA Working Capital Fund. Accrued Environmental Restoration Liabilities, including BRAC cleanup activities, are budgeted with appropriated funds. Any environmental restoration or cleanup liabilities resulting from operations of the Defense Energy Support Center are captured in the year of occurrence and presented as accounts payable.

NOTE 12 B. ENVIRONMENTAL LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (NOT APPLICABLE TO DLA)

NOTE 13. OTHER LIABILITIES

(Dollars Rounded to Thousands)

	Current Liability	Noncurrent Liability	Total
Other Liabilities Covered by Budgetary Resources			
Intragovernmental			
Advances from Others	$ 190,962	$ 0	$ 190,962
Deferred Credits	0	0	0
Deposit Funds and Suspense Account Liabilities	0	0	0
Liability for Borrowings to be Received	0	0	0
Liability for Subsidy Related to Undisbursed Loans	0	0	0
Resources Payable to Treasury	0	0	0
Disbursing Officer Cash	0	0	0
Other Liabilities			
Nuclear Powered Aircraft Carriers	0	0	0
Nuclear Powered Submarines	0	0	0
Other Nuclear Powered Weapon Systems	0	0	0
Other National Defense Weapon Systems	0	0	0
Conventional Munitions	0	0	0
Other Liabilities	8,074	0	8,074
Total	**$ 199,036**	**$ 0**	**$199,036**
With the Public			
Accrued Funded Payroll and Benefits	$ 22,563	$ 0	$ 22,563
Advances from Others	0	0	0
Deferred Credits	0	0	0
Deposit Funds and Suspense Accounts	0	0	0
Temporary Early Retirement Authority	0	0	0
Other Liabilities			
Nuclear Powered Aircraft Carriers	0	0	0
Nuclear Powered Submarines	0	0	0
Other Nuclear Powered Weapon Systems	0	0	0
Other National Defense Weapon Systems	0	0	0
Conventional Munitions	0	0	0
Other Liabilities	2,754	7,093	9,847
Total	**$ 25,317**	**$ 7,093**	**$ 32,410**

Other Information

The $7 million shown in other liabilities with public, represents bid collections received by the DRMS. The collections are accounted for in the Suspense Account 97X6875. At the time the appropriate bid is identified, these funds are returned to the Bidder(s). Based upon DLA' s interpretation of the Statement of Federal Financial Accounting Standard (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. The 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.

The $8 million in other liabilities represents the delinquent portion of the workman's compensation payable to the Department of Labor for FY 1997 and prior.

The $2.7 million other liability represents a contingent liability in the Supply Management area.

Disclosure of accounts payable on balance sheet. The amounts used to adjust accounts payable for DLA was the FY92-99 amount of unsupportable undistributed disbursements of ($615.2 million). These amounts are distributed among the five DLA business areas as follows:

The amounts used to adjust accounts payable for DLA Distribution Depots (5B) was the FY92-99 amount of unsupportable undistributed disbursements of $113.8 million.

The amounts used to adjust accounts payable for DLA Supply Management (5C) was the FY92-99 amount of unsupportable undistributed disbursements of ($715.7 million).

The amounts used to adjust accounts payable for DLA Printing Services (5G) was the FY92-99 amount of unsupportable undistributed disbursements of $38.9 million.

The amounts used to adjust accounts payable for DLA Defense Reutilization & Marketing Service (5N) was the FY92-99 amount of unsupportable undistributed disbursements of ($38.4 million).

The amounts used to adjust accounts payable for DLA Information Services (5F5) was the FY92-99 amount of unsupportable undistributed disbursements of ($13.8 million).

	Current Liability	Noncurrent Liability	Total
Other Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable - Cancelled Appropriations	$ 0	$ 0	$ 0
Custodial Liability	0	0	0
Deferred Credits	0	0	0
Liability for Borrowings to be Received	0	0	0
Other Actuarial Liabilities	0	0	0
Judgement Fund Liabilities	0	0	0
Workmen's Compensation Reimbursement to DOL	66,895	31,833	98,728
Nonenvirnmental Disposal Liabilities			
Nuclear Powered Aircraft Carriers	0	0	0
Nuclear Powered Submarines	0	0	0
Other Nuclear Powered Weapon Systems	0	0	0
Other National Defense Weapon Systems	0	0	0
Conventional Munitions	0	0	0
Other Liabilities	0	0	0
Total	**$ 66,895**	**$ 31,833**	**$ 98,728**
With the Public			
Accounts Payable Cancelled	$ 0	$ 0	$ 0
Accrued Unfunded Liabilities	0	0	0
Accrued Unfunded Annual Leave	50,964	48,447	99,411
Deferred Credits	0	0	0
Nonenvironmental Disposal Liabilities			
Nuclear Powered Aircraft Carriers	0	0	0
Nuclear Powered Submarines	0	0	0
Other Nuclear Powered Weapon Systems	0	0	0
Other National Defense Weapon Systems	0	0	0
Conventional Munitions	0	0	0
Other Liabilities	0	0	0
Total	**$ 50,964**	**$ 48,447**	**$ 99,411**

Other Information

The Judgment Fund Website, which shows a record of payments made out of the Judgment Fund appropriation for claims against the United States, shows DLA as the agency of record in six matters totaling $1.3 million for FY 99. Absent a specific statutory requirement, the Agency is not required to reimburse the Judgement Fund for reimbursements on its behalf. Moreover, because of DLA's role as administrator of defense contracts, DLA's participation in many matters is that of a litigant on behalf of a Military Service or other Agency. Therefore, even if reimbursement were to be required under, for example, the Contract Disputes Act, payment would not necessarily come out of DLA's accounts but rather from the contracting agency. Research is ongoing to determine whether any of the six Judgment Fund payments on behalf of DLA for FY 1999 will have to be repaid, and if so, by which Agency. Therefore, it would be premature to recognize any of these Judgment Fund disbursements as DLA liabilities.

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. The DLA cannot make a prediction on the outcome of labor-management arbitration. The amount or range of amounts relative to this case cannot be determined.

NOTE 14. MILITARY RETIREMENT BENEFITS & OTHER EMPLOYMENT-RELATED ACTUARIAL LIABILITIES

(Dollars Rounded to Thousands)

	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liabilities
Major Program Activities				
Pension and Health Benefits				
Military Retirement Pensions	$ 0	0.00 %	$ 0	$ 0
Military Retirement Health Benefits	0	0.00 %	0	0
Total	$ 0		$ 0	$ 0
Insurance/Annuity Programs				
	$ 0	0.00 %	$ 0	$ 0
	0	0.00 %	0	0
Total	$ 0		$ 0	$ 0
Other				
Workmen's Compensation (FECA)	$ 292,688	5.60 %	$ 0	$ 292,688
Voluntary Separation Incentive Program	0	0.00 %	0	0
DoD Education Benefits Fund	0	0.00 %	0	0
	0	0.00 %	0	0
Total	$ 292,688		$ 0	$ 292,688
Total	**$ 292,688**		**$ 0**	**$ 292,688**

Other Information

Actuarial Cost Method Used

The actuarial liability estimate for future Workers' Compensation Benefits is provided by the Department of Labor (DOL). The liability for future workers' compensation (FWC) benefits 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 related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefits payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

The Workmans compensation actuarial liability is provided by the Department of Labor at the Department of Defense Level. Actual Chargebacks from the Department of Labor are provided to the individual services below the Department of Defense Level. To determine the amount for the DFAS statements, a percentage was determined based on the FY 1999 actual chargebacks for FY 1999 rather than prorating the Department of Defense amount to the services base on the number of personnel at the services as was used last year. Using the actual chargebacks should provide a closer allocation of these costs to the services.

Assumptions

Market value of investments in market-based and marketable securities

NOTE 15. NET POSITION

Unexpended Appropriations (Not Applicable to DLA)

Other Information

Undelivered Orders in Line 1b includes both Undelivered Orders Unpaid (Account 4801) and Undelivered Orders Paid (Account 4802) for Direct Appropriated funds.

NOTE 16 A. SUBORGANIZATION PROGRAM COSTS (NOT APPLICABLE TO DLA)

NOTE 16 B. COST OF NATIONAL DEFENSE PP&E (NOT APPLICABLE TO DLA)

NOTE 16 C. COST OF STEWARDSHIP ASSETS (NOT APPLICABLE TO DLA)

NOTE 16 D. STEWARDSHIP ASSETS TRANSFERRED (NOT APPLICABLE TO DLA)

NOTE 16 E. EXCHANGE REVENUE (NOT APPLICABLE TO DLA)

NOTE 16 F. AMOUNTS FOR FMS PROGRAM PROCUREMENTS FROM CONTRACTORS (NOT APPLICABLE TO DLA)

NOTE 16 G. BENEFIT PROGRAM EXPENSE (NOT APPLICABLE TO DLA)

NOTE 16 H. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

(Dollars Rounded to Thousands)

	Budget Function Code	Gross Cost	(Less Earned Revenues)	Net Cost
Department of Defense Military	051	$ 14,696,709	$ (14,459,545)	$ 237,164
Water Resources by US Army Corps of Engineers	301	0	0	0
Pollution Control and Abatement by US Army Corps of Engineers	304	0	0	0
Federal Employee Retirement and Disability by Department of Defense Military Retirement Trust Fund	602	0	0	0
Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund	702	0	0	0
Total		**$ 14,696,709**	**$ (14,459,545)**	**$ 237,164**

NOTE 16 I. IMPUTED EXPENSES

(Dollars Rounded to Thousands)

CSRS/FERS Retirement	$	47,227
Health		60,938
Judgement Fund/Litigation		0
Life Insurance		182
Total	$	108,347

NOTE 16 J. OTHER DISCLOSURES

Month-End financial report (1307 report) and CFO Statement Differences In the Supply Management business area the normal month-end financial reports and the CFO Statements differ due to additional documentation regarding inventory items in excess of approved force acquisition objectives and approved force retention stock objectives. This inventory stratification is received following the normal month-end reporting cycle causing reconcilable timing differences. Changes occurred in inventory, cost of goods sold, transfers out and expense/loss accounts. Another reconcilable timing difference includes the identification of a prior period adjustment to correct an error in prior financial reports dealing with the settlement between DLA Headquarters and the USDA (See footnote 17 for details.) For the DAPS there is a $2.7 million difference between the 1307 Part 1, Line 4, Total Revenues and Part 1, Line 10, Total Expenses. This reconcilable difference of $2.7 million occurred because miscellaneous gains were reported as revenue on the 1307 as opposed to reduction in expenses that is reflected on the CFO. The 1999 United States Government Standard General Ledger (USGSGL) crosswalk recorded other miscellaneous gains as a reduction in program costs. In the Distribution Depot business area there was $31 million in depreciation expenses attributed to FY 1998 that were not posted to the general ledger until FY 1999. A journal voucher was generated at the end of FY 1998 to account for these expenses on the 1998 CFOs. For FY 1999 the journal voucher was reversed at the time the property system updated the general ledger. The result is that the FY 1999 1307 report is overstated by $31 million.

Reporting of Governmental and Public Program Costs on the Statement of Net Cost DBMS is the accounting system for four of the five DLA business areas. DBMS does not have the capability to accurately identify expenses as either government or public. The breakouts identified on the statement are based on assigning attributes as either “I” for governmental or “P” for public to the various DBMS expense GLACs as they are crosswalked to the USGSGL. The totals shown the in Statement of Net Cost are based on using this convention.

Contract Terminations The full amount of the FY 1999 costs incurred by the DLA where specific goods were made to order or specific services were produced under contracts that were terminated is $4.9 million. The DLA terminated 27,984 contracts representing $114.9 million in value, during FY 1999.

The gross costs of goods, services, transfers, and grants provided by the DLA, under the DRMS disposal programs, to the public and government agencies without charge during FY 1999 is $8.4 million. The DLA recovers the direct costs of transfers, such as packing and shipping costs, through annual billings to the Military Services and the DLA supply management activity groups.

The imputed costs for DLA are offset by $1.5 million. This is the amount attributed to the National Stockpile (Subhead 5145, Appropriation 0100). The Supply Management business area has a reimbursable arrangement with the National Stockpile.

The gross costs of goods, services, transfers, and grants provided by the DLA, under the DRMS disposal programs, to the public and Government agencies without charge during FY 1999 is $8.4 million. The DLA recovers the direct costs of transfers, such as packing and shipping costs, through annual billings to the Military Services and the DLA supply management activity groups.

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

(Dollars Rounded to Thousands)

Prior Period Adjustments - Increase(Decrease) to Net Position Beginning Balance

Changes in Accounting Standards	$ 0
Errors and Omission in Prior Year Accounting Reports	(217,364)
Other	0
Total	**$ (217,364)**

Imputed Financing

CSRS/FERS Retirement	$ 47,227
Health	60,938
Judgement Fund/Litigation	0
Life Insurance	182
Total	**$ 108,347**

Other Disclosures to the Statement of Changes in Net Position

A prior period adjustment has been made in Supply Management materials for $40 million to record the reclassification of accounts receivable erroneously established for the cost of the supplies involved in the Humanitarian Assistance program. This program (under authority of 10 U.S.C. 2546) provided blankets, bedding, medical supplies and other incidental items to homeless shelters operated by entities other than the Department of Defense. The Emergency Supply Operations Center should have established the program costs as a free issue rather than as a receivable. The amounts and commodities affected are as follows: Clothing and Textile - $34.6 million, Medical - $3.8 million, and General - $1.7 million. In a General Audit Report No. 98-052 dated January 22, 1998, it was determined that these sales should be reversed and processed as free issue. This was accomplished in November 1998.

A prior period adjustment was made in Supply Management for $16.4 million. These are expense adjustments that can be identified with and directly related to prior periods.

In Supply Management there is a ($2.9 million) dollar amount that equates to a settlement amount being negotiated between DLA Headquarters and the United States Department of Agriculture (USDA) to eliminate and settle the balance of the Beef to Europe program. This program was established to collect payments due from the USDA for the sale of chilled beef sent to the commissaries in Europe. Since its inception the USDA has disputed the amount of this receivable.

Supply Management recorded a $69.3 million prior period adjustment to write-off fiscal year 1998's Property in the Hands of Contractors. Per the Volume 6B of the FMR, the Department of Defense is not to record this type of property as an asset.

DRMS posted a $600 thousand commitment in FY 98 for a training course. This commitment rolled over into FY 1999. It was later discovered that this commitment was obligated during FY 98 under a different document number. The obligation was posted to the general ledger in FY 1999 as a prior period adjustment.

There were $19.6 million prior period adjustments made in DRMS to correct erroneous hazardous reimbursables from 1992-1998.

A prior period adjustment was made in the DAPS for $1.4 million. This represents the amount needed to reconcile the Southeast Business Teams' capital equipment general ledger account to the property physical inventory that was taken during FY 1999. The DWAS (DAPS accounting system) property module was not functioning during FY 1998, thus the property list was not reconciled to the General Ledger. This FY 1998 reconciliation was performed in FY 1999 making this adjustment a prior period adjustment.

An adjustment of ($867 thousand) to the Distribution Depot account is necessary to record a prior year expense related to the processing of refunds receivable.

The Department of Labor has charged back to the Department of Defense for FECA Workers Compensation claims from the FY 1999 and prior. DLA has recorded the amount of the claims related to fiscal years prior to FY 1999 as prior adjustment in the amount of $73.8 million.

Other Information

For Line 1G, Other, the $403 million represents inventory transfers out from various Supply Management stockfund commodities to the various Military Service and other DoD components. These transfers could not be recorded in 1E, Transfers (Out) due to insufficient transfer in balances reported by the appropriate DoD components necessary to eliminate these intragovernmental eliminations. Proper recordation would have created out-of-balances at the Other Defense Organizations (ODO) level.

In the Distribution activity Group, the change in net position for budgetary purposes is understated by $65.4 million. This is the result of Office of the Secretary of Defense Comptroller (OSD(C)) absolving the Army from reimbursing DLA for Bosnia over ocean transportation ($13.2 million in FY 1998 and $52.2 million in FY 1999). This is a loss to Annual Operating Result (AOR) that has been deferred (forgiven) for recovery purposes.

NOTE 18. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

(Dollars Rounded to Thousands)

Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$	5,996,796
Available Borrowing and Contract Authority at the End of Period	$	3,278,530

Other Information

Undelivered Orders in Line 1 includes Undelivered Orders Unpaid (Account 4801) for both Direct and Reimbursable funds. Line 1 does not include Undelivered Orders Paid (Account 4802).

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 Adjustments on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

The amount of ($1.9 billion) represents the unused portion of Anticipated Contact Authority. This process is performed in accordance with DoD policy for Fiscal Year Close Out of financial data. The amount of reimbursements earned exceeded the obligations incurred, therefore eliminating the necessity for additional contract authority.

The $45 million unobligated balance transfer for Supply Management represents a reprogramming action transfer from the Defense Working Capital Fund to the Department's centralized Drug Interdiction and Counter-Drug Activities, Defense, FY 1999.

The Information Services' Statement of Budgetary Resources shows a negative unobligated balance available of $4.8 million due to contract authority not being invoked for FY 1998 and FY 1999. The amount was derived of the following:

Beginning Capital Authority (FY97)	$ (4.3 million)
Capital Obligation (1307Report) FY99	$ 13.8 million
Capital Outlays (1307 Report) FY99	$ (12.5 million)
Write of Contract Authority (133 Report) – FY99	$ (3 million)
Beginning Unobligated Balance before write-off of contract authority	$ (1.7 million)
	$ (4.7 million)

An additional ($.5 million) relates to funded workers compensation claims.

The DLA has $452 million problem disbursements that represent disbursements of DLA funds that have been reported by a disbursing station 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. The problem disbursement arises when DLA's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the transactions in all applicable systems. DLA has efforts underway to improve the systems and to resolve all previous problem disbursements.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in Line 5 Adjustments on the Statement of Budgetary Resources), are not included in Spending Authority From Offsetting Collections and Adjustments on Line 12 of the Statement of Budgetary Resources or Line 1b on the Statement of Financing.

Transfers In and Out of property for General and Working Capital Funds, and transfers of collections and disbursements to the Component level for applicable Defense Working Capital Funds, which are reflected on the Statement of Changes in Net Position Lines 2e and 2f, are not included in Line 1e on the Statement of Financing.

The FY 1999 Reimbursable Obligations Incurred for DAPS was $370 million. This total was reduced by an adjustment of $180 million representing the amount that the DAPS Reimbursable obligations were overstated on the FY 1999 SF133. This overstatement resulted in a FY 1999 SF133 line 2a brought forward October 1 balance of $(174 million). See Combining Statement of Budgetary Resources Line 2 Unobligated Balance - Beginning of period. Per discussion with DFAS-IN this adjustment to the SF133 had to be made in the current year, as prior year carry forward balances can not be adjusted. This $180 million adjustment is necessary on the Statement of Financing in order to properly match FY99 Budgetary Resources used in the Statement of Net Cost proprietary Program Cost.

This other increase of $2 million represents Loss on Disposition of Assets of $161 thousand and other miscellaneous losses of $1.9 million included in the Statement of Net Cost proprietary Program Cost, but not requiring Budgetary resources.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY (NOT APPLICABLE TO DLA)

NOTE 21 A. OTHER DISCLOSURES; LEASES (NOT APPLICABLE TO DLA)

NOTE 21 B. OTHER DISCLOSURES (NOT APPLICABLE TO DLA)

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Required Supplemental Stewardship Information

DEFENSE LOGISTICS AGENCY – DEFENSE WORKING CAPITAL FUND

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GENERAL PROPERTY, PLANT, AND EQUIPMENT

Real Property Deferred Maintenance Amounts
As of September 30, 1999
(Dollars Rounded to Thousands)

Property Type/Major Class

Real Property		
Buildings	$	22,485
Structures		5,390
Land		
Total	$	27,875

Narrative Statement

The federal government lacks standards on the methodology to estimate deferred maintenance information that must be reported based upon Federal Accounting Standards Advisory Board (FASAB) requirements. Until these requirements are defined at the government-wide level, the DLA will include in its financial statements deferred maintenance amounts reported for PP&E real property that were reported during the budget process. In addition, the DoD has volunteered to chair a Chief Financial Officer (CFO) Council project tasked with developing and recommending government-wide methods for determining deferred maintenance estimates and reporting guidance.

The Defense Logistics Agency (DLA) operates a number of distribution facilities throughout the world. During the fiscal year (FY) ended September 30, 1999 maintenance expense was recognized as incurred. Maintenance completed and reevaluated during FY 1999 reduced the prior year balance total of cumulative deferred maintenance from $80 million. Remaining deferred maintenance amounts are cumulative from September 30,1995.

Information on deferred maintenance is based on periodic inspection of these facilities. DLA has adopted the military standards and policies as outlined in the Department of the Army Pamphlet 420-6, Facilities Engineering Resources Management System, in the evaluation of facility conditions. The requirements, statements, and annual work plans outlined in Pamphlet 420-6 is used by DLA in establishing funding levels and executing Real Property Maintenance Agreements. These standards include minimum and desirable condition descriptions for facilities, suggested maintenance schedules, standard costs for maintenance actions, and standardized condition codes. There have not been any material changes in the standards in recent years.

HERITAGE ASSETS

	Measurement Quantity	As of 10/01/98	Additions	Deletions	As of 9/30/99
Collection Type					
Archeological Artifacts	Cubic Feet				
Archival	Linear Feet				
Artwork	Item				
Historical Artifacts	Item				
Non-Collection Type					
Archeological Sites	Site				
Buildings and Structures	Item	0	1		1
Cemeteries	Site				
Memorials and Monuments	Item				

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.

SEGMENT INFORMATION

(Dollars Rounded to Thousands)

PART A

The DLA is a combat support agency responsible for worldwide logistics support throughout the DoD. The primary focus of the 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 as activity groups and are as follows:

The Supply Management Activity Group (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, receives, 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 include 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 Defense Automated Printing 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.

PART B

		FY1999
Fund Balance	$	0
Accounts Receivable	$	1,059,306
Property Plant and Equipment	$	984,827
Other Assets (Note 1)	$	9,885,917
Liabilities Due and Payable for Goods and Services Received	$	1,707,524
Deferred Revenue		
Other Liabilities	$	722,273
Cumulative Results of Operations	$	9,500,253

PART C

The Full Cost of Goods and Services Provided	$	14,696,709
The Related Exchange Revenue	$	14,459,545
The Excess of Costs Over Exchange Revenue	$	237,164

Note 1: Amount includes $ 9,441,606 of Inventory and Related Property.

INTRAGOVERNMENTAL TRANSACTIONS

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. However, the DLA as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. For FY 1999, DFAS provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side departmental accounting offices and required the adjustment of the buyer-side records to agree with the seller-side. As a result, internal DoD balances were eliminated. In addition, the DLA implemented the policies and procedures contained in the Intragovernmental Fiduciary Transactions Accounting Guide; thereby, eliminating and 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.

Auditors' Opinion

DEFENSE LOGISTICS AGENCY – DEFENSE WORKING CAPITAL FUND

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

February 14, 2000

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE LOGISTICS AGENCY**

SUBJECT: Independent Auditor's Report on the FY 1999 Defense Logistics Agency Working Capital Fund Financial Statements (Project No. 0FJ-2105)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and the auditors for the financial statements, internal controls, and compliance with laws and regulations. We attempted to audit the FY 1999 Defense Logistics Agency (DLA) Working Capital Fund (WCF) consolidated financial statements that were provided to us on February 1, 2000. DLA prepared the financial statements based on information compiled by the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio. Both DLA and DFAS are responsible for establishing and maintaining adequate internal controls and for complying with laws and regulations applicable to financial reporting. The Office of Management and Budget Bulletin, "Audit Requirements for Federal Financial Statements," establishes the minimum requirements for audits of Federal financial statements. On July 21, 1999, the Under Secretary of Defense (Comptroller) designated the DLA Working Capital Fund an internal DoD-required reporting entity with a requirement to prepare audited financial statements.

Disclaimer of Opinion. Because of noncompliant automated systems, DLA was not able to produce auditable financial statements. In addition, DLA and DFAS were not able to fully correct previously reported material deficiencies in the existence and valuation of inventory assets, "Fund Balance With Treasury" and cash-related transactions, and property, plant, and equipment. These problems materially affected the information in the FY 1999 DLA WCF consolidated financial statements. Although DLA and DFAS were taking action to correct the problems, their actions were not completed in FY 1999. Therefore, we performed sufficient work to determine the status of previously reported problems. We also performed limited tests of internal controls and compliance with laws and regulations. These tests and DLA self-disclosures provided details about some of the significant problems that hampered DLA and DFAS in preparing reliable financial statements. As a result of these problems, we do not express an opinion on the FY 1999 DLA WCF consolidated financial statements.

Except for the limitations on the scope of our work on the Principal Statements described above, we did our work in accordance with generally accepted Government auditing standards and the OMB Bulletin, "Audit Requirements for Federal Financial Statements."

Internal Controls. We performed a limited review of internal controls to determine whether they were effective. Internal controls consist of five components: the control environment, risk assessment, control activities, information and communication, and monitoring. Effective implementation of these controls provides reasonable assurance that accounting data are accumulated, recorded, and reported properly by management and that assets are safeguarded. Our review of internal controls did not disclose all internal control weaknesses that exist. We identified the following major internal control weaknesses:

- DLA and DFAS did not have the systems and processes in place to produce reliable and timely financial statements.
- DLA did not implement a sound statistical sampling plan to measure the dollar accuracy of the reported $9.4 billion of ending inventories.
- DLA used an inadequate methodology developed by the Office of the Under Secretary of Defense (Comptroller) to estimate the historical cost of ending inventories.
- DLA may not have reported all existing and newly purchased capital assets in the $2.6 billion of property, plant, and equipment reflected on the financial statements.
- The DFAS Columbus Center did not reconcile DLA cumulative cash accounts ($686.9 million in undistributed collections and disbursements) to the official DLA accounting records.
- Interim DFAS guidance required DLA to report a zero balance in Fund Balance With Treasury, although applicable Federal accounting guidance for presenting this account existed.

Compliance With Laws and Regulations. We performed a limited assessment of compliance with laws and regulations related to the FY 1999 DLA WCF consolidated financial statements. Noncompliance with laws and regulations is a reportable condition if the noncompliance could result in material misstatements in the financial statements or if the sensitivity of the matter would cause a reasonable person to perceive the noncompliance to be significant. Accounting systems and internal controls did not completely or accurately present the financial condition of the DLA WCF as required by section 303, title 31, United States Code. DoD accounting policies did not always comply with OMB Bulletin No. 97-01, “Form and Content of Agency Financial Statements,” October 16, 1996, as amended November 20, 1999, in areas such as valuation and presentation of inventory.

Under the Federal Financial Management Improvement Act of 1996 and the OMB Bulletin, “Audit Requirements for Federal Financial Statements,” DLA and DFAS disclosed that their financial management and feeder systems did not comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the FY 1999 DLA annual statement of assurance indicated that material weaknesses in automated systems contributed to the inability of DLA to produce reliable financial statements.

Additional Reports. This is the first in a series of reports related to the FY 1999 DLA WCF consolidated financial statements. This report briefly summarizes the major deficiencies affecting DLA. Additional reports will discuss internal controls and compliance with laws and regulations in more detail.

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Deputy Assistant Inspector General
for Auditing

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View the Annual Financial Statement on line at:
www.fo.hq.dla.mil