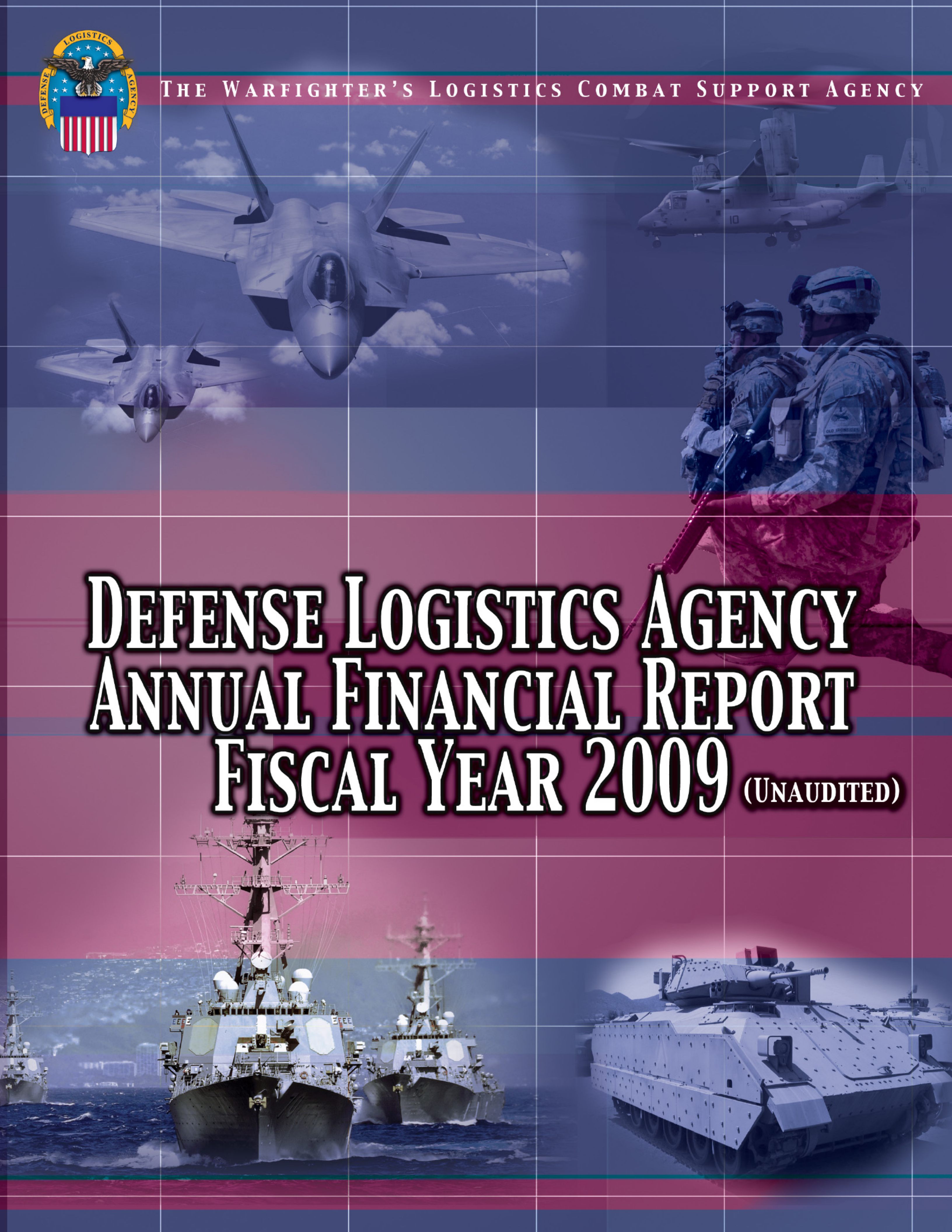

THE WARFIGHTER'S LOGISTICS COMBAT SUPPORT AGENCY

DEFENSE LOGISTICS AGENCY ANNUAL FINANCIAL REPORT FISCAL YEAR 2009 (UNAUDITED)

Defense Logistics Agency

Defense Working Capital Fund and General Fund

Fiscal Year (FY) 2009 Annual Financial Report

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Message from the Director
October 2009

As the Department of Defense's (DOD) logistics combat support Agency, the Defense Logistics Agency (DLA) plays a critical and ever-increasing role in providing logistics support and collaborative leadership of the DOD global supply chain. Consequently, DLA is integral to Warfighter readiness, life-cycle sustainment, and the overall National Military Strategy. Shortly after I assumed the position of DLA Director in the fall of 2008 – and having considered input from a variety of internal and external stakeholders – we established guidance to expedite the actions that will ensure DLA continues to meet current requirements and future challenges. In addition to capitalizing on our strong civilian and military workforce, the guidance recognized that we need to continually embrace our expanded responsibilities driven by Base Realignment and Closure (BRAC) 2005 outcomes and constantly improve our business processes and enabling systems as we extend DLA's support wherever it brings value.

Our stewardship of the resources entrusted to our care by the American people is a DLA strategic focus area and a top priority. Even though we still have many obstacles that preclude an audit of our financial statements, we are making progress in addressing impediments to our audit readiness. As we strive to consider all possible actions to effectively manage cost while sustaining a strong support posture, we also recognize that maintaining the financial, physical, and information assurance integrity of our assets is a vital responsibility. In that regard, we will continue our efforts to develop and implement automated systems, business processes, and management controls that meet our mission requirements and comply with federal financial management requirements. These efforts are affirmed in the DLA Financial Improvement and Audit Readiness plan. By executing that plan, we will systematically address our deficiencies and achieve that commitment in a cost efficient and operationally effective manner.

Enhancing support of the Nation's Warfighters at the least possible cost is DLA's primary focus. Our workforce of dedicated men and women knows how vital its daily work is to keeping American troops prepared to meet any challenge…anytime…anywhere. I am honored and proud to lead the DLA team to this end.

A. S. THOMPSON
Vice Admiral, SC, USN
Director

Defense Logistics Agency

Consolidated Management's Discussion And Analysis

Fiscal Year Ended September 30, 2009

DESCRIPTION OF THE DEFENSE LOGISTICS AGENCY

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

DLA manages more than 4.8 million separate line items and disseminates logistics cataloging information for most items managed by DLA that support the DoD, other Federal Agencies, and U.S. international partners. These items include aviation, land and maritime parts for weapon systems, fuel, and critical troop–support items involving food, clothing and textiles, medical, and construction equipment and materiel. Additionally, DLA provides a broad array of associated supply chain services that include storage and distribution, enabling the reutilization or disposal of surplus military assets, managing the defense national stockpile of strategic materiel, providing catalogs and other logistics information, and document automation and production services. DLA also manages the procurement of depot-level reparables. In addition, DLA supports U.S. allies and friends through Foreign Military Sales and is a vital player in providing humanitarian support at home or abroad.

DLA missions have evolved and grown over the past 48 years to an extent that if our forces fight with it, wear it, eat it, or burn it as fuel, we probably buy it; warehouse and distribute it; or arrange for its reuse, sale, or disposal after the owner no longer needs it.

DLA's Mission:

To Provide Best Value Integrated Logistics Solutions to
America's Armed Forces and Other Designated Customers…
in Peace and in War…Around the Clock, Around the World

DLA's Vision:

Extending the Enterprise Forward to Meet the Needs of the Warfighter
DLA…Supporting Mission Success!

DLA's Commitment:

Doing what is right for the Armed Forces and DoD

FY 2009 was truly a demanding year as DLA focused on supporting the warfighter while ensuring that it received the best value from taxpayer resources. The primary challenges faced by the Agency included the need to:

- Sustain current overseas contingency operations, including operations in the increasingly demanding theater of operations in Afghanistan;
- Reassess major initiatives and budget priorities, especially across the financial (programming and budgeting) planning horizon;
- Continue to improve business process outcomes for customers and taxpayers;
- Enable further improvements in information sharing, integration and assurance in supporting basic business operations and promoting a common logistics operating picture; and
- Enhance its ability to quickly respond to unexpected challenges.

In executing its 2009 vision, DLA emphasized four Guiding Principles that enhanced its ability to do all it can for those it serves:

Our Purpose: *We exist to support our nation's warfighters. We focus everything we do on providing what they need to accomplish their mission. We will be fast, flexible and totally responsive;*

Our Solutions: *We must always seek and deliver the best solutions for the Armed Forces and DoD;*

Our Decisions: *We should argue passionately about what is good and effective, but never allow that to blind us to the need for collaborative approaches and appropriate changes; and*

Our People: *The selection, well-being and effective leveraging of our ever-more-diverse workforce, both military and civilian, are the foundation for all of our efforts and the key to meeting our challenges.*

STRATEGIC GOALS AND SUPPORTING STRATEGIES

DLA plays a pivotal role in delivering the joint logistics capability that optimizes warfighter support; and its ability to deliver the right logistics solution to the warfighters on every transaction requires supply chain excellence. Consequently, the Military Services' ability to generate and sustain global combat readiness depends on a supply chain that seamlessly moves DLA-managed materiel from the nation's industrial base to its ultimate user.

To fulfill this mission, DLA will build on its wholesaler excellence. We will leverage the operational efficiencies generated by the Agency's transformational initiatives, such as the efforts to implement the Base Realignment and Closure (BRAC) 2005 Supply and Storage recommendations and the efforts to extend the capabilities of the Enterprise Business System (EBS) – an end-to-end Enterprise Resource Planning capability managing all of DLA's hardware and troop support items.

The Defense Logistics Agency FY 07 – FY 13 Strategic Plan, promulgated in February 2007, contains four strategic goals and clearly documents and commits DLA's resources and energy to the realization of three new strategic thrusts; each one is designed to move DLA beyond its traditional wholesaler responsibilities. Those strategic thrusts will:

1) Extend Enterprise resources to geographically align with supported activities and capitalize on best value opportunities that improve warfighter readiness.

2) Connect warfighter demand with supply by transforming the Department's demand planning capabilities and the processing of demand signals throughout the supply chain.

3) Deliver supply chain excellence by forging end-to-end logistics solutions that strike the targeted balance among effectiveness, agility, reliability, speed, visibility, and cost.

DLA's four strategic goals:

Strategic Goals
• Maximize warfighter potential by extending the Enterprise to provide worldwide response and integrated, best value supplies and services consistently to our customers. • Continuously improve DLA performance through the development of better processes and business arrangements that reduce cost, increase logistics capabilities, and link customer demands with our supply chains. • Ensure a diverse, enabled, empowered, and motivated workforce that delivers and sustains supply chain excellence. • Manage DLA resources for best customer value.

DLA will achieve these strategic goals through a series of integrated Enterprise-wide strategies.

Goal 1. Maximize warfighter potential by *extending the Enterprise* to provide worldwide response and integrated, best value supplies and services consistently to our customers.

Strategy 1.1. Extend competencies and capabilities closer to the warfighters.

Strategy 1.2. Actively engage the warfighters to better understand their needs and meet their requirements.

Goal 2. Continuously improve DLA performance through the development of better processes and business arrangements that reduce cost, increase logistics capabilities, and *link customer demands with our supply chains*.

Strategy 2.1. Align demand and supply chain capabilities within the supply chain management model to better support the warfighters and their weapon systems.

Strategy 2.2. Leverage industry capabilities to provide world-class support to the warfighter at the lowest possible cost.

Strategy 2.3. Adopt, institutionalize, and continuously improve best business practices to improve quality and speed and to reduce cycle time and costs, while maintaining the integrity of the procurement process.

Strategy 2.4. Achieve world-class supply chain performance, completing DLA's transition from wholesale to end-to-end supply chain management excellence.

Strategy 2.5. Design, implement, and sustain a best value Enterprise Information Technology (IT) environment.

Goal 3. Ensure a diverse, enabled, empowered, and motivated workforce that *delivers and sustains supply chain excellence*.

Strategy 3.1. Acquire, develop, and retain, world-class supply chain expertise through a comprehensive talent management program.

Strategy 3.2. Attain and sustain a corporate culture that meets the needs of the warfighter through logistics excellence.

Strategy 3.3. Provide a quality work environment that optimizes employee performance.

Goal 4. Manage DLA resources for best customer value.

Strategy 4.1. Resource DLA's operational strategies.

Strategy 4.2. Minimize total supply chain costs.

Strategy 4.3. Demonstrate stewardship and foster stakeholder trust.

For any enterprise of DLA's size and scope, transformation and organizational evolution are complex processes that require an immense expenditure of capital, energy, and effort by all involved. In order to mitigate these challenges while maintaining its focus on its core missions, DLA organized its efforts into 15 transformational initiatives that support the three overarching strategic thrusts. The strategic thrusts provide the initiatives with a coherent focus, ensuring that individual initiatives do not lose sight of the strategic picture even as they remain fixed on their unique missions. The transformational initiatives are individual programs for executing enterprise change: the quality of its services, the scope of its mission, and the efficiency with which it operates to meet the needs of the warfighter while providing the best value for the taxpayer. DLA's strategic thrusts and transformation initiatives are identified and summarized below:

Extend the Enterprise

BRAC Supply and Storage consists of three recommendations, enacted into legislation in 2005, that enhance the effectiveness and efficiency of logistics support to operational joint and expeditionary military forces. BRAC Supply and Storage is a catalyst for further end-to-end supply chain integration in DoD; the Military Services and DLA are working to forge an integrated defense logistics supply chain that serves DoD industrial and operational customers. BRAC further expands DLA's role in DoD logistics from its traditional wholesale boundaries to becoming a broader supply chain provider. BRAC also drives supporting process, policy, and EBS systems changes underway to enhance DLA's ability to fulfill its new mission and responsibilities.

Customer Facing is a multi-phase effort to co-locate DLA personnel and Agency capabilities with the Military Services and Combatant Commanders (COCOMs). This initiative is delivering on DLA's strategy to provide its customers with direct access to the Agency's competencies and capabilities.

Joint Regional Inventory Materiel Management (JRIMM) is designed to improve warfighter support by: 1) establishing a single warehousing/distribution hub in each region, 2) minimizing all other storage sites within a region, 3) eliminating duplicate inventories, 4) maximizing utilization of the DLA Strategic Distribution Platforms (SDP), 5) reducing the number of times that materiel is handled, and 6) consolidating regional transportation management.

National Inventory Management Strategy (NIMS) is an initiative that streamlines and improves consumable item management by affording the Military Services the opportunity to eliminate their unnecessary inventory investment in DLA-managed parts. This allows the merger of DLA wholesale and Military Service retail inventories into a single national inventory whose total cost is less than the sum of the individual stockpiles.

Global Stock Positioning (GSP) is the strategy to position materiel around the globe in advance of customer requirements. It is designed to appropriately balance materiel availability with investment, storage, and distribution costs.

Forward Buying is a global DLA capability to bring the contracting point of engagement closer to the customer - whereby buyers are deployed at the customers' sites to support customers' emergency and spot buys. Except for the Energy commodity, these forward buyers are authorized to procure DLA managed items regardless of supply chain or commodity; and they will also offer contracting support on three distinct levels - strategic, intermediate, and tactical. A forward buyer's performance is tracked in the way same as a supply chain buyer's performance at the home base.

Connect Warfighter Demand with Supply

Supplier Relationship Management (SRM) is an initiative to build collaborative alliances with key suppliers in order to ensure materiel availability, quality, and value for those DLA-managed items vital to warfighter support. SRM also provides the capability to evaluate and manage supplier performance. Other long-term benefits of SRM include: 1) reduced vendor delivery times; 2) inventory savings; 3) collaborative communication between DLA, its customers, and suppliers; and 4) leveraged buying power for DoD.

Industrial Product-Support Vendor (IPV), formerly known as Integrated Prime Vendor, provides integrated supply chain management and logistics support of expendable items (i.e., consumable spare parts and industrial hardware) to support the customers' maintenance, repair, and overhaul operations. IPV is an initiative to migrate the management and requisitioning of consumable spare parts – industrial hardware, such as nuts, bolts, screws, and o-rings, used at Military Service maintenance facilities, from individual Service-managed programs to contractor-provided support. These parts are stored in bins at or near the point of use - at the industrial maintenance locations and on production lines. IPV is a push-pull concept whereby the vendor forecasts requirements and pushes the parts (bench stock) into the bins, and the customer pulls parts from the bins without a requisition. This strategy is aligned with DLA's strategic vision of linking supply and demand and extending the Enterprise forward to the customers' locations. In addition, the strategy provides command and control at the supply chain level (Aviation, Land, and Maritime); provides better program and acquisition accountability and visibility over each supply chain; aligns with the Enterprise Business System's (EBS) organizational structure; incorporates Supplier Relationship Management (SRM) involvement; includes DLA headquarters oversight and support; and identifies alignment of future IPV support at the affected DLA Supply, Storage, and Distribution (SS&D) sites and the Depot-level Reparable (DLR) procurement detachments.

Integrated Data Environment (IDE)/Global Transportation Network (GTN) Convergence (IGC) Program is a partnership initiative between DLA and United States Transportation Command (USTRANSCOM) that will provide a single point of access to decision support related supply, distribution, and deployment data and information. The DLA IDE is a constituent system of the IGC, a System-of-Systems (SoS) program. The purpose of the IGC Program is to retire the legacy GTN system. The DLA IDE supports the data sharing requirements for both DLA and USTRANSCOM; while the major IGC technical components include the Data Broker provided by the DLA IDE Program, and the Enterprise Data Warehouse (EDW) provided by USTRANSCOM.

DLA Fusion Center is an initiative designed to enable our processes, empower our workforce, and facilitate our ability to measure and assess DLA's support to the warfighter. The DLA Fusion Center will combine people, processes, and technology in a net-centric distributed environment where operational and performance data from DLA and our mission partners will be integrated. Consequently, it will link supply availability to specific demand satisfaction (to specific customers, weapon systems, theaters, and items). It will provide access to information needed for decision making; help managers determine the importance and priority of issues; provide employees the ability to more quickly recognize and correct deficiencies; and provide analysts with tools needed to conduct root analysis and present alternatives for problem resolution.

Contract Administration is a Post-Award activity that required renewed management attention. Consequently, DLA designated 2008 as "The Year of Contract Administration" whereby Contract Administration received equal emphasis with Pre-Award activities in terms of skill recognition, technology development, and performance metrics standardization. The Contract Administration Plan of Action and Milestones tracks 13 major action items to support this initiative.

Public/Private Competitions and High Performing Organizations (HPOs): In FY 1998, DLA began competing with private industry for the management of: distribution operations at its depots, distribution functions at its reutilization and marketing offices, and document automation and support functions at the Document Automation & Production Service (DAPS). During FY 2006 and FY 2007, DLA expanded this initiative by competing for its installation services support functions at two strategic distribution platforms (SDPs), three non-energy supply centers, and DLA Headquarters at Fort Belvoir, VA. During FY 2008 and FY 2009, DLA conducted a streamlined competition for Information Technology (IT) Help Desk services at the Susquehanna, PA SDP. The goals of these competitions are to reduce operating costs either by reengineering existing business processes or by inserting the market forces of competition into these service functions, while maintaining equal or better mission performance. Consequently, 19 competitions were completed with DLA retaining in-house operations from 10 competitions, while the other nine were contracted with private industry. In addition, both the DAPS Most Efficient Organization and the DLA Human Resources Center were designated by the Office of the Secretary of Defense as HPOs, where reengineering driven efficiencies have yielded savings comparable to those obtained through public-private competitions. These 19 competitions and two HPOs have provided net savings of over $800 million from FY 1998 through FY 2009; the projected additional net savings for the FY 2010 – 2015 timeframe is more than $850 million.

Deliver Supply Chain Excellence

Enterprise Business System (EBS) is currently employed across much of DLA's supply mission activities. DLA introduced its first complete Enterprise Resource Planning (ERP) solution through the Business Systems Modernization (BSM) Program, which was fully operational in 2007. BSM and other complimentary systems now encompass the Enterprise Business System (EBS). EBS modernized and refined the Agency's supply chain management capability, utilizing Commercial-Off-the-Shelf (COTS) products to provide an ERP solution to manage seven of its eight supply chains and facilitate over 22,000 users operating in 28 countries worldwide. EBS identifies areas for key process improvement, improves analysis, and offers greater agility in monitoring and tracking operational and fiscal performance. EBS continues to evolve both technologically and functionally. Current developmental efforts to extend EBS capabilities include the enabling of modernized processes in the areas of energy; procurement; real property; operational accounting; and consumer-level (retail) supply, storage, and distribution for industrial maintenance customers.

Common Food Management System (CFMS) is a joint initiative between DLA and the Military Services to replace the Military Services' individual food management systems with a single, cross-service system. CFMS is being implemented using a commercial-off-the-shelf (COTS) food management application. It will support the subsistence supply chain from demand (point-of-sale) to supply (institutional distributors). CFMS will incorporate all the menu planning, recipes, replenishment, inventory, budgeting, and accounting functions performed by the current Military Services' systems.

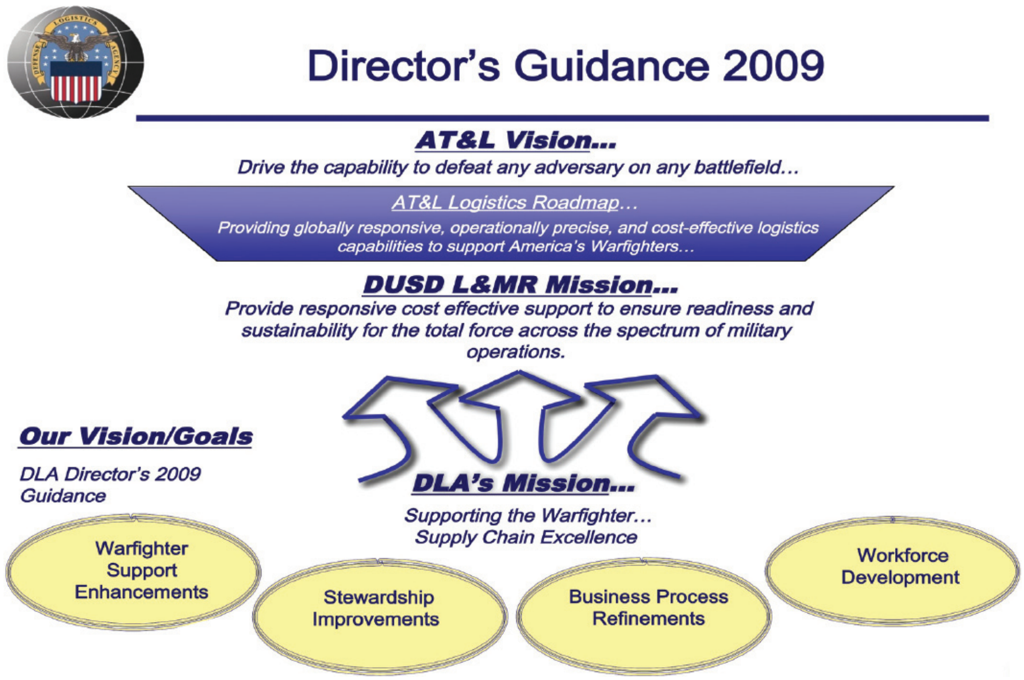
Reutilization Business Integration (RBI), formerly known as the Reutilization Modernization Program (RMP), is a DLA initiative to update its disposal business processes and replace the current Defense Reutilization and Marketing Service (DRMS) inventory management information technology systems. RBI will obtain its solution through the DLA Enterprise Business System (EBS), Distribution Standard System (DSS), Document Automation & Production Service (DAPS), Integrated Data Environment (IDE), and Federal Logistics Information System (FLIS), while re-engineering the DRMS business processes.

STRATEGIC FOCUS AREAS, DESIRED OUTCOMES AND SUPPORTING INITIATIVES

As stated previously, DLA's overriding commitment is "Doing what is right for the Armed Forces and DoD." In that spirit, DLA's four principal strategic focus areas aligned well with its extensive operational commitments and Strategic Plan and drove its supporting initiatives. These focus areas are:

- Warfighter support enhancements;
- Stewardship improvements;
- Business process refinements; and
- Workforce development.

The focus areas are described in detail below, along with desired outcomes for each. Also identified are the 22 initiatives that DLA emphasized during FY 2009 to support progress in these focus areas. DLA pursued these initiatives in parallel with ongoing strong support of our customers' operational needs and continued progress on other key efforts, as well. While many of the initiatives impact more than one focus area, they are arrayed by the area they most predominately support; and because these initiatives collectively impact the entire Agency, they often require support across all of - and sometimes beyond - DLA.



While the outcome results are provided in each respective Activity Group Overview ***Program Initiatives and Accomplishments*** and ***Program Performance Indicators*** portions of this report, the following sections identify and briefly describe the focus areas, the desired outcomes; and the supporting initiatives:

Warfighter Support Enhancements means supporting the readiness and sustainment of those who are deployed or preparing to deploy. It is DLA's top priority and it includes support of maintainers and others whose own efforts are critical to preserving and enhancing our nation's defense posture. This requires constant attention to ensure DLA's goals and performance metrics are synchronized with those of its warfighting customers, mission partners, and other stakeholders.

- **Desired Outcomes:**
  - Expected and emergent requirements are supported;
  - Best-value support to all operational commitments is sustained;
  - DLA's expanded role in industrial support is continuously improved;
  - Capabilities and related performance metrics that define DLA's commitments in supporting the current logistics needs and future challenges of the Combat Commands and Military Services are refined;
  - The mission partnership with the United States Transportation Command (USTRANSCOM) in its role as DoD's Distribution Process Owner (DPO) is continually enhanced to best support joint-enabled end-to-end supply chain effectiveness and efficiency for DoD; and
  - OSD and Joint Staff leadership - in planning to meet near-term and out-year logistics challenges – are effectively supported.

- **Supporting Initiatives:**
  - **Afghanistan expansion.** Prepare for and support expanded operations in Afghanistan, including participating in assessments of alternate supply routes and sources.
  - **Iraqi Theater Resets.** Execute effective support of personnel/equipment resets from the Iraqi theater.
  - **BRAC-related services improvements.** In accordance with the BRAC 2005 Supply and Storage recommendations, continue to expand DLA's role in direct support of the Military Services' industrial operations at depots, logistics centers, shipyards, and other sites that sustain and enhance the effectiveness of weapons systems and supporting equipment. Also provide integrated depot-level reparable procurement management and additional consumable item management for the Military Services and arrange for commercial support of several commodities, including tires, packaged petroleum, oil, and lubricants (POL), and compressed gasses.
  - **Extend DLA's warehousing roles.** Assess the potential for DLA to operate distribution services at other "retail" sites.
  - **Align performance with mission priorities.** Reassess both DLA's current and potential partnership commitments with its customers and revise related Performance Based Agreements (PBAs), as needed. Review DLA's overall performance metrics to better align those metrics/goals with those of its customers, mission partners and other stakeholders.
  - **Refine and enhance supply chain partnerships.** Enhance its partnership with USTRANSCOM, the DoD's Distribution Process Owner (DPO). Identify how DLA can also collaborate to enhance DoD logistics effectiveness and efficiency, including further leveraging its relationships with the United States Joint Forces Command (USJFCOM).
  - **Support renewable and alternative energy solutions.** Drive DoD and interagency efforts in alternative fuels and installation renewable energy support. Also DLA does all it can to ensure access to, and constrain the costs of, fuel and other current energy-related products.
  - **Lead major OSD and Joint Staff supply management requirements studies.** There are two critical efforts under way for which DLA is either the lead or a co-sponsor: the DLA-led formation of a Joint Contingency Acquisition Support Office (JCASO) to provide contracting support when contingencies arise, and the DoD's Performance Based Logistics (PBL) and Contractor Logistics Support (CLS) initiatives. Each will be coordinated with related efforts such as USTRANSCOM's DPO initiatives.
  - **Expedite resolutions to logistics problems.** Support the Military Service customers' future food preparation and service processes through the Common Food Management System and expeditiously resolve issues as they arise.

Stewardship Improvements require that DLA assess its current and potential roles to ensure that it is delivering the maximum payoff from taxpayer resources as it supports the warfighter.

- **Desired Outcomes:**
  - Provide assurance that DLA's current projects and initiatives are both relevant and achievable.

- o Enhance DLA's ability to identify and mitigate vulnerabilities or inefficiencies that negatively impact its mission performance and resource stewardship.

- **Supporting Initiatives:**
  - o **Review and prioritize DLA's largest projects and initiatives.** Fully consider DLA's commitments and desired stewardship end-state, given its resource constraints and many other competing initiatives.
  - o **Identify cost-reduction opportunities.** Scrutinize costs as DoD prioritizes its allocation of resources among its numerous operational requirements.
  - o **Initiate a DLA-wide approach to risk management.** Enhance DLA's financial audit readiness by focusing its attention on the identification and resolution (or mitigation) of any vulnerabilities to its critical business processes.
  - o **Enhance information assurance.** Preserve a secure environment while sustaining business continuity and enabling strong interoperability.

Business Process Refinements are achieved primarily through enhancements that modernize systems and processes in areas such as energy, procurement, and distribution and create significant improvements in business process effectiveness and efficiency. Examples of these enhancements include: enabling DLA's demand and supply planners to collaborate with customers and leverage its supplier relationships; and refining the capability to capture and display actionable management information regarding its performance metrics.

- **Desired Outcomes:**
  - o Identify areas for improvement to both the key processes and the supporting IT systems.
  - o Improve analytical tools and skills.
  - o Provide greater agility in monitoring/tracking operational and fiscal performance and responding to challenges, trends and other events.
- **Supporting Initiatives:**
  - o **Assess DLA's EBS-supported business performance and potential.** Further capitalize on EBS-supported experience by conducting timely and comprehensive reviews of its business performance and assess its potential for improvement.
  - o **Deliver the desired functionality for DLA's business processes, as enabled by the execution of EBS initiatives by:**
    - ♦ Replacing the legacy procurement program to support the procurement of depot-level reparables;
    - ♦ Deploying an integrated capability to manage the energy mission;
    - ♦ Leveraging DLA Enterprise applications to modernize the reutilization, transfer, and disposal processes;
    - ♦ Extending accounting capability throughout the Enterprise;
    - ♦ Deploying an enterprise infrastructure (real property) management capability; and

♦ Deploying various other EBS system enhancements that support DLA's expanded supply, storage, and distribution responsibilities at industrial sites as a result of BRAC 2005.

- **Improve day-to-day outcomes of demand/supply planning efforts and of overall alignment of DLA's supply chains with its customers and strategic suppliers.** Expand DLA's use of strategic supplier alliances, supply chain alliances, Prime Vendors, and other long-term contracts; and refine its Sales and Operations Program (S&OP) to guide related materiel investment decisions.
- **Implement an Enterprise strategy to enhance information sharing capabilities.** Define and align DLA's various data integration and sharing initiatives.
- **Enhance DLA's partnership with engineering support activities**. Provide resources to create strong, seamless links with Military Service engineering activities to ensure delivery of the right parts to maintenance activities that support weapon systems and the warfighters.

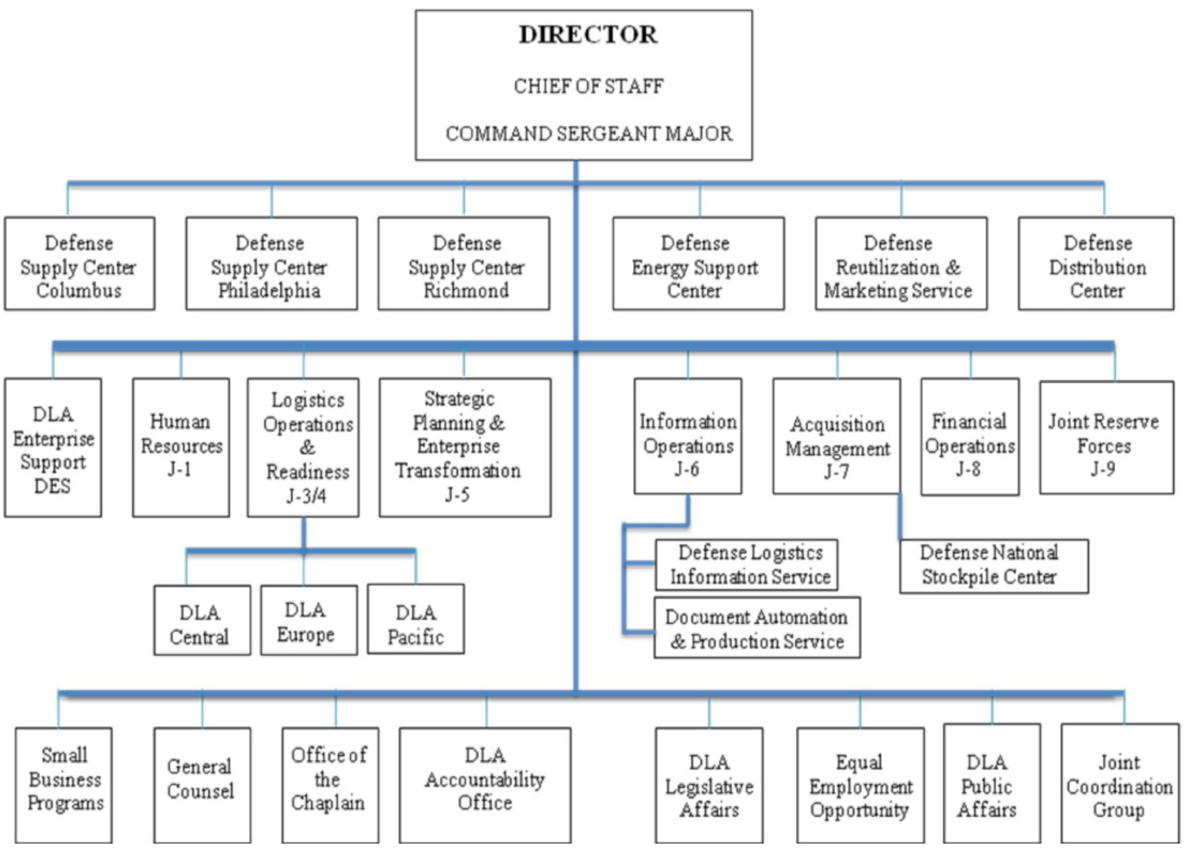
Workforce Development enables the DLA workforce (civilians, active duty and reserve military) to capitalize on their skills, experiences, diverse backgrounds, and potential. It also prepares DLA to manage the transition, as retirements increase in the years ahead. DLA must enable its employees to most effectively employ modern system capabilities and to best execute their increasingly direct customer-support roles at forward, industrial, and operational sites.

- **Desired Outcomes:**
  - Assess employee perceptions in 2009 and ensure that actions are taken to enhance employees' opportunities to best benefit from their skills, experience, and potential in support of DLA's missions.
  - Identify current and future skill gaps and the related education, training, and experience opportunities required.
  - Refine recruitment and training programs as appropriate to capitalize on the diverse backgrounds, skills, and potential of DLA's workforce.
  - Improve support of DLA's employees working overseas - at industrial sites and in liaison roles with key warfighter customers, mission partners, and other stakeholders.
- **Supporting Initiatives:**
  - **Conduct and respond to the 2009 DLA employee survey**. Assess - and then act upon - the Agency's culture and its affect on the workforce's ability to perform at its maximum potential.
  - **Improve DLA's orientation training.** Improve the "DLA 101" orientation training process to ensure that DLA's employees have a common understanding of the overall missions, organization, principal stakeholders, and key objectives.
  - **Enhance DLA's support of personnel involved in forward support capabilities.** Enable "DLA Forward" employees at Continental United States (CONUS) industrial sites and Out of Continental United States (OCONUS) to be more responsive, effective, and efficient.
  - **Expedite progress on DLA's talent management program**. Increase efforts to identify talent requirements; enhance its current employees' abilities; and further focus recruiting efforts to meet related needs.

ORGANIZATION

DLA maintains a global presence and accomplishes its mission with approximately 24,400 civilian personnel, 488 active duty personnel, and 733 reserve personnel. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. These efforts will enable the implementation of an enterprise business model that develops, deploys, and executes an improved set of corporate business processes and strategies. By organizing as a single, integrated business enterprise, DLA will be in a position to focus more efficiently and effectively on supporting the DoD's supply chain, enhancing the Armed Forces' readiness, and providing for the warfighter during contingency operations. DLA is proactive in serving warfighter mission needs and constantly meets face-to-face with customers to determine requirements and how best to fulfill them.

Our organizational structure is described below:



DLA's core functions are directed or supported by:

DLA Enterprise Support (DES) provides Enterprise-wide agency policy, program, and world-wide operational support in Environment; Safety and Occupational Health; Installation Management; Public Safety; Forms and Policy Management; Defense Travel System; and Morale, Welfare and

Recreation for DLA. DES directs the administration of policy for centralized management and support service functions of the Agency; serves as a key enabler of logistics and information operations initiatives; and serves as the principal support service advisor to the Director, DLA for the DES Headquarters and Site Missions and Functions.

Human Resources (J-1) provides the full range of human resources services, both policy and operational, for DLA's civilian and active duty military employees. Policy support is provided by HQ DLA at Fort Belvoir, VA. Operational services are conducted by J-1 offices located in Columbus, OH and New Cumberland, PA; a centralized military personnel support organization located at HQ DLA; and the DLA Training Center, which provides training support to DLA's workforce, located in Columbus, OH.

Logistics Operations and Readiness (J 3/4) is responsible for the end to end supply chain management of DLA's eight supply chains, providing logistics and materiel process management policy, guidance, oversight, and monitoring of supply chain performance. J 3/4 is the principal strategic, operational, and tactical planner for DLA business operations, championing best business practices and value added logistics solutions for the warfighter. It serves as the Agency's focal point for customer support, engaging customers around the world, understanding their needs, and translating those needs back to the rest of DLA to maximize the Agency's logistics capability. J 3/4 oversees the daily operation of the DLA logistics Field Activities and has primary responsibility for DLA's Research and Development (R&D) program. In collaboration with the Military Services, J-3/4 is responsible for operational planning and execution oversight for the DLA BRAC implementation.

Strategic Planning and Enterprise Transformation (J-5) is responsible for DLA's strategy development and management; Director's Guidance development and tracking; executive governance, including field review visits; enterprise organizational alignment; risk assessment; process improvement and internal controls. The Director, J-5, communicates and executes the DLA Director's vision and senior leadership's strategies through the DLA Strategic Plan, as executed through the annual Director's Guidance. J-5 ensures horizontal integration and execution of strategy and overall DLA transformation by sponsoring cross-functional approaches and collaboration forums for enterprise decision-making and organizational alignment. J-5 also manages all aspects of executive governance for the Director, including regular and special session executive boards and field review visits. As proponent for Enterprise Risk Management, J-5 develops the strategy, concept of operations, and policy for agency-wide deployment of ERM, Continuous Process Improvement and Managers Internal Controls.

Information Operations (J-6) is DLA's knowledge broker, and is responsible for providing comprehensive, best practice technological support to the DoD/DLA logistics community, resulting in the highest quality of information systems, efficient and economical computing, data management, electronic commerce, and telecommunication services. The Director, J-6, is responsible for the development and compliance of information technology (IT) policy; the development of IT plans and strategies; and the establishment of IT standards, processes, and measurements. The Director, J-6, also serves as the Agency's Chief Information Officer. Information Operations includes oversight of two field activities: the Defense Logistics Information Service and the Document Automation & Production Service.

Acquisition Management (J-7), DLA's full life-cycle contracting process owner, is responsible for planning, organizing, directing, and managing the procurement and contract administration functions for DLA acquisition in support of both internal operations and other supported activities. The Director, J-7, also serves as the Agency's Component Acquisition Executive, the Senior Procurement Executive, and Head of the Agency, when required and unless otherwise prohibited by stature or regulation. Acquisition Management includes oversight of the DLA Contracting Services Office Center of Excellence; the acquisition of major Information Technology (IT) systems/programs; and the oversight of the Defense National Stockpile Center (DNSC), which is a DLA field activity responsible for the administration and execution of the Department's Strategic and Critical Materials management policies and operations.

Financial Operations (J-8) is led by the Agency's Chief Financial Officer who, as the financial management process owner, is the single spokesperson on financial management matters with external organizations. J-8 is responsible for designing, implementing, and executing standard financial processes across the Agency; determining financial services' resource requirements and performance targets; and establishing financial core competency requirements.

Joint Reserve Forces (JRF) (J-9) supports DLA with trained, ready, and available reservists, of all reserve components, for contingency operations, peacetime contributory support, wartime surge support, and planning support. Further, J-9 advises the Director, DLA, on the planning and application of JRF support in accordance with DoD and Military Service readiness and activation policies.

DEFENSE WORKING CAPITAL FUND

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

During FY 2009, DLA executed a total budget program of approximately $39.5 billion; finished the year with total assets valued at approximately $21.0 billion and liabilities of $3.8 billion from the Consolidated Balance Sheet; and incurred a net operating loss of almost $4.5 billion on program costs of approximately $44.1 billion and revenues of nearly $39.6 billion from the Consolidated Statement of Net Cost.

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

- **Supply Management:** The Supply Management activity group provides customer support through its management of logistics processes. This includes centralized management of logistics catalog information, energy, repair parts, operating supply items, food, pharmaceuticals, medical and surgical supplies, construction materiel and equipment, and clothing and textiles. Supply Management operates through three supply centers located in Columbus, OH; Richmond, VA; and Philadelphia, PA; and the Defense Energy Support Center located at Fort Belvoir, VA. The Supply Management activity group is the largest of our business areas. It makes up about 97% of the assets, 89% of the liabilities, and more than 95% of revenue and costs on the financial statements.

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

- **Reutilization and Marketing:** The Reutilization and Marketing activity group supports and coordinates the disposal of excess and surplus property within DoD. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non-profit organizations, state governments, and local governments. Property not reused, transferred, or donated is either sold to the public on a competitive basis or disposed of in an environmentally safe manner. A critical part of the Reutilization and Marketing mission is to arrange for the worldwide disposal of hazardous waste in compliance with laws and regulations. The activity group accomplishes its mission from a headquarters in Battle Creek, MI, and 111 Defense Reutilization and Marketing Offices located on military installations around the world.

- **Document Automation & Production:** The Document Automation & Production activity group provides printing, duplicating, and document automation services within DoD. This mission encompasses the full range of automated services to include: document workflow conversion, electronic storage and output, and distribution of hard copy and digital information. The focus is on enabling customers to transition from hardcopy to digital/electronic-based document management. The worldwide mission of the activity group is managed through a headquarters in Mechanicsburg, PA, and a network of 182 production facilities.

DEFENSE LOGISTICS AGENCY ACTIVITY GROUP PRINCIPAL LOCATIONS

1. Defense Supply Center Columbus (DSCC)	5. Defense Distribution Center (DDC)
2. Defense Supply Center Richmond (DSCR)	6. Defense Reutilization and Marketing Service (DRMS)
3. Defense Supply Center Philadelphia (DSCP)	7. Document Automation & Production Service (DAPS)
4. Defense Energy Support Center (DESC)	8. Defense Logistics Agency Headquarters (DLA HQ)

GENERAL FUND AND TRANSACTION FUND

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

In FY 2009 DLA received approximately $1.1 billion in General Fund direct appropriations, which accounted for slightly more than 2% of DLA's total budget program. These appropriations included: Operation and Maintenance (O&M); Research, Development, Test and Evaluation (RDT&E); Military Construction (MILCON); Procurement; Family Housing O&M; and two Base Realignment and Closure (BRAC) appropriations, BRAC 95 and BRAC 2005.

The DLA O&M appropriation, approximately $395 million, funded two distinct groups: Other Logistics Services (OLS), $321 million, and Other Logistics Programs (OLP), $74 million. The OLS group included thirty-three programs that were associated with the DLA logistics mission, such as: Price Comparability, Warstoppers, Hard Copy Map Function, Unemployment, Morale Welfare & Recreation, and Disaster Relief Blankets. In addition, OLS included programs added by either the DoD or Congress, such as Logistics Transformation. The OLP group consisted of approximately eight program offices for which DLA either provided administrative support or had program oversight, such as the Defense Property Accountability System and the Continuity of Operations Program.

The DLA RDT&E appropriation, $201 million, primarily supported two types of efforts: Advanced Technology Development (Logistics Research and Development Technology Demonstration and Defense Microelectronics Equipment) and Operational System Development (Industrial Preparedness/Manufactured Technology and Logistics Support Activities).

The DLA MILCON appropriation, nearly $257 million, funded major construction projects to replace, renovate, or build new facilities. The Army Corps of Engineers and Naval Facilities Engineering Command are the primary design and construction agents for this program.

The DLA Procurement appropriation, nearly $9 million, funded the purchase of mission essential equipment, including passenger carrying motor vehicles, telecommunications equipment, automated data processing, and microelectronics equipment.

The DLA Family Housing O&M appropriation, more than $1 million, supported an inventory of 170 units located at the Distribution Depot Susquehanna, PA (140 units), and the Distribution Depot San Joaquin, CA (30 units). DLA's Family Housing program consisted of routine operation requirements including management and utility costs, carpet and linoleum replacement, painting, and replacement of appliances.

The BRAC 95 appropriation, nearly $3 million, provides for ongoing environmental cleanup and monitoring efforts at former DLA sites. The BRAC 2005 appropriation, approximately $194 million, funds several DLA-led initiatives mandated by the BRAC 2005 statute.

The DLA General Funds finished FY 2009 with total assets valued at approximately $1.3 billion and liabilities of approximately $0.6 million from the Consolidated Balance Sheet.

DLA also manages the National Defense Stockpile Transaction Fund, a separate $335 million revolving fund that strives to provide safe, secure, and environmentally sound stewardship for strategic and critical materiel in the National Defense Stockpile. The Transaction Fund is not accounted for in these financial statements, but is embedded in the DoD Agency-wide financial statements.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

SYSTEMS, CONTROLS, AND AUDIT READINESS

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

DLA senior management evaluated the system of internal accounting and administrative controls in effect during FY 2009 as of the reporting period of July 1, 2008 through June 30, 2009. This evaluation was done in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control" (June 21, 2005); OMB Circular A-123 Appendix A, "Internal Control Over Financial Reporting"; DoD Instruction 5010.40, "Managers' Internal Control Program Procedures" (January 4, 2006); and DoD Comptroller guidance, "FY 2009 Guidance for the Preparation of the Statement of Assurance (SOA)" (November 13, 2008). OMB guidelines were issued in conjunction with Government Accountability Office (GAO) "Standards for Internal Control in the Federal Government" (November 1999), as required by the Federal Managers' Financial Integrity Act of 1982.

Based on its evaluation, DLA provided a qualified statement of assurance that its system of internal controls, as of June 30, 2009, was operating effectively with the exception of 15 material weaknesses. In FY 2009, the Agency identified one new material weakness, closed four, and carried forward 14 weaknesses discovered in prior periods.

DLA remains vigilant in assessing its internal controls, continues to address all of its weaknesses efficiently and effectively, and is committed to resolving them in a timely manner.

Systems

DLA continues to pursue longer-term efforts designed to fully assess its business and financial operations and to improve integration of systems and processes that are compliant with Federal system and accounting requirements. Three of our major strategies:

- The improvements to Enterprise Business System (EBS) began by completing the upgrade to ERP Central Component (ECC) 6.0, which introduced limited new functionality for all process areas with the majority occurring in finance. This upgrade provided the foundation for the current Eprocurement initiative and resolves longer-term software maintenance issues. The upgrade also offers Section 508 compliance improvements, provides performance improvement tools, and supports the Enterprise Operating Accounting System (EOAS) initiative. The new financial functionality added with ECC 6.0 improves capabilities in the following areas:

    - Budgetary Control System;
    - Budgetary Ledger;
    - Streamlined year-end close processing;
    - Improved payment update program; and
    - Funds Management (related to Goods Receipt).

- The Enterprise Operational Accounting System (EOAS) project was completed, and DLA migrated the operational accounting for DLA business areas that remained on two DLA legacy systems – the Defense Business Management System and the Defense Working Capital Accounting System (DWAS) onto EBS. The project focused on the operational accounting functionality performed in the legacy systems; however, the Document Automation & Production Service and the Defense National Stockpile Center designed and built key sales functionality, which was performed in the DWAS. While many new interfaces between feeder systems and EBS were created, all DLA financials - that previously resided in legacy accounting systems - now reside in the DLA EBS.

- The Energy Supply Chain continues to operate using the BSM-Energy system (also known as Fuels Automated System (FAS)). FAS is an automated information system designed to support the Defense Energy Support Center (DESC) and the Military Services in performing their respective responsibilities in fuels supply chain management. In December 2003, DLA was directed to converge FAS with the DLA core architecture (introduced via the BSM program). DLA has been working with SAP to integrate the oil and gas industry solution with Federal Financial and Supplier Relationship Management. In support of converging the energy supply chain into EBS, a system integrator contract for the Energy Convergence Program is expected to be awarded in the first quarter of fiscal year 2010. When deployed (the deployment timeframe is considered acquisition sensitive due to on-going contracting actions), this program will fully assess all of DESC's supply chain requirements and comply with Federal system and accounting requirements.

The Defense Finance and Accounting Service (DFAS) prepared the FY 2009 DLA financial statements from available automated finance, accounting, and feeder systems (such as acquisition, logistics, and personnel systems) and manual processes. Due to system deficiencies, there are limitations in collecting the data needed to prepare financial statements that comply with Federal standards. To prepare the financial statements, DFAS made numerous adjustments during the compilation process in an attempt to overcome these deficiencies. DLA has corrective actions underway that are intended to improve the underlying systems, business processes, and internal controls.

Management Controls

DLA is institutionally committed to fostering a climate supportive of internal controls. The information contained in the DLA FY 2009 Statement of Assurance (SOA) is a result of audits, inspection reports, and self-reporting of control deficiencies by its Assessable Units, along with accomplishments toward preventing control deficiencies. The SOA demonstrates progress in addressing difficult management issues while emphasizing a strategy of continuous improvement. DLA's rigorous internal control process methodology; Lean Six Sigma; and Enterprise Risk Management initiatives all play important roles in strengthening the Agency's understanding of its key business processes, as well as in the identification, validation, and testing of internal controls.

A pre-condition to assessing internal controls is for Agency Assessable Units to focus on their key mission, goals, and objectives. Assessable unit managers then review and analyze their organizational alignment, policies, processes, and procedures to discover risks that could prevent them from achieving their goals and objectives, and then identify the internal controls that are necessary to mitigate those risks. Once identified, managers test the internal controls to ensure that they are designed properly and are working as intended. The results of these evaluations support the Assessable Unit's SOA.

Under the oversight of DLA's Senior Assessment Team (SAT), which maintains complete records of the assessment documentation, DLA conducted assessments in strict compliance with OMB Circular A-123, Appendix A, "Internal Control Over Financial Reporting (ICOFR)." Based on the results of this evaluation, DLA was able to provide a qualified statement of assurance that DLA's ICOFR implementation areas, as of June 30, 2009, were operating effectively with the exception of the material weaknesses described in the SOA. These included four corrected weaknesses and one new material weakness. Corrective Action Plans are developed to document and fix ICOFR material weaknesses. Progress in executing Corrective Action Plans are reported to the SAT and the Stewardship Committee. In addition, Corrective Action Plans are reported to the DoD Financial Improvement and Audit Readiness (FIAR) Directorate through its web-based FIAR tool.

The Financial Operations Office continued its efforts to improve the Agency's Defense Working Capital Fund financial reporting, so that the Enterprise can achieve the strategic goal of managing DLA's resources for the best customer value. As a result of these efforts, a standard process for reviewing the variances between financial statement comparative periods was developed and implemented. This is a DLA headquarters led process that: 1) determines which financial statement lines require review and analysis, 2) provides guidance to the operational field offices for the preparation of the variance analysis, 3) reviews the analysis from field offices, 4) analyzes and consolidates the input from the field offices for submission to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), and 5) answers OUSD(C) questions regarding either the financial data or the analysis.

To stay current with regard to the latest management control challenges, the Financial Operations Office Management Internal Control Program coordinator, as well as the DLA field office points of contact, routinely reviewed Government Accountability Office and DoD Audit Reports to: 1) identify weaknesses and the corresponding corrective actions for DLA-related functions and operations, 2) disseminate the information to the responsible DLA functional managers, and 3) facilitate a proactive approach that fosters management awareness and initiates the implementation of proper controls.

Progressing Toward Audit Readiness

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

The ten business cycles that fall under the purview of this governance structure include: Procure to Pay, Order to Cash; Plan to Stock, Budget to Execution, Environmental Management, Fund Balance With Treasury, Hire to Retire, Acquire to Retire, Technical Infrastructure and Architecture, and Record to Report. Each Enterprise Business Cycle Owner is a senior leader in DLA. Further, each BCT (led by a single responsible EBCO) is responsible for creating and implementing strategies that resolve reported audit findings; documenting the approaches to maintain and sustain audit readiness; and developing and executing a Detailed Work Plan (DWP) to resolve audit impediments in their areas of responsibility. As such, DWPs document DLA's approach to fix audit impediments; contain the actions required to document the processes and related internal controls; and identify the steps required to validate the outcome of the corrective actions and prepare the requisite management assertions. The DWPs also contain Financial Improvement Plans (FIPs) and Key Control Objectives (KCOs) to measure progress of each BCT. In addition, KCOs are reported to the DoD Comptroller Financial Improvement and Audit Readiness (FIAR) Directorate through its web-based tool and are included in the DoD FIAR Plan – the Department's comprehensive approach to achieve DoD-wide audit readiness. DLA updates the FIAR tool – on a monthly basis – with the status of its KCOs. Finally, DLA - to support the FIAR Directorate's modified approach for the Department to demonstrate movement towards audit readiness - also utilized its existing DWPs to generate both the new Statement of Budgetary Resources FIP and the input regarding the completeness (and existence) of inventory, real property, and general property.

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

As of the 3rd Quarter, FY 2009, DLA reported a total of 26 KCOs - associated with various reportable elements (Real Property, Inventory and Related Property, Fund Balance with Treasury (FBWT), and Environmental Liabilities - in the FIAR plan. Only one milestone associated with these 26 KCOs was planned for and completed by the end of June 2009. This milestone required that DLA document a baseline for an Inventory and Operating Materiel & Supplies valuation process, where the values are based on available historical acquisition data and other supporting documentation.

Financial Improvement and Audit Readiness (FIAR) Initiative

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

- **Policies** - to ensure that DLA policies, regulations, procedures, and other guidance are consistent with applicable Federal and DoD business and financial management laws, regulations, and policies;
- **Processes** (manual, automated, or both) - to ensure that business and financial processes produce accurate and timely financial information;
- **Controls** - to ensure that proper controls are in place to achieve:
  - Effectiveness and efficiency of operation,
  - Reliability of financial reporting, and
  - Compliance with applicable laws and regulations;

- **Systems** - to ensure that system capabilities and functionalities reliably produce the financial information or data needed to record financial transactions in a timely manner, and confirm that system documentation is up-to-date, properly maintained, and readily available for auditors; and
- **Human Capital** - to ensure that DLA has the right number of people with the right skills, knowledge, and experience to accomplish financial management improvement goals.

During the Discovery and Correction phases, DLA reviews and evaluates every business process step and develops corrective actions for each of the five essential elements of financial management improvement. Corrective actions for each element are captured as milestones in the FIPs and KCO plans. Corrective actions and progress are tracked across DLA from an end-to-end business process level, the business process step level, or the element level. This approach addresses improvement across the business (systems and processes) to produce both business and financial improvements.

DLA uses the services of a commercial firm to assist with the implementation of corrective actions and the preparation of process documentation required by both the DoD Comptroller's Business Rules and OMB Circular A-123. DLA's plan to achieve auditable financial statements is continually updated as progress is made toward these goals.

OTHER ACCOMPANYING INFORMATION

Restructured Annual Financial Report (future years): Effective October 1, 2009, the Supply Management, Distribution, and Reutilization & Marketing Activity Groups will be consolidated into a single Supply Chain Management (SCM) Activity Group. Under this new structure, the organizations that previously reported their financial information as components of the Distribution and the Defense Reutilization & Marketing activity groups will no longer report separately, but rather as components of the SCM Activity Group. Consequently, the FY 2010 Annual Financial Report will reflect the Working Capital Fund financial statements of the SCM and the Defense Automation & Production Service Activity Groups.

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

- **For Class I (Subsistence):**
  - continued to engage the Combatant Commands to optimize sustainment and planning;
  - participated in planning efforts to proactively support both the Iraq drawdown, and the increase of forces in Afghanistan;
  - participated in an operations plan logistics sustainability analysis writing conference that developed a detailed logistics support plan to address the support requirements of the U.S. Pacific Command (USPACOM) warfighter;
  - participated in developing a Common Food Management System (CFMS) which is a joint initiative between DLA, the Military Services and the Military Sealift Command (MSC) to replace the Military Services and MSC's individual food management systems with a more efficient and cost effective single, cross-service system;
  - conducted planning and preparations for a multi-commodity Review of Concept (ROC) Drill with U.S. Africa Command (USAFRICOM) to analyze the supply chain in support of a humanitarian assistance/disaster relief scenario in the USAFRICOM area of responsibility;
  - continued to work on identified supply chain gaps and seams. Of the 21 previously identified gaps and seams, 17 were closed. Additionally, the gaps and seams resolution process was standardized through a Lean Six Sigma project;
  - collaborated with the U.S. Navy 4th Fleet, U.S Naval Forces Southern Command (NAVSOUTH) and U.S Southern Command (USSOUTHCOM) to provide subsistence prime vendor support to Navy ships operating in Central and South America; and
  - participated in FEMA's Hurricane scenario exercises to ensure DLA readiness for the 2009 hurricane season.

- **For Class III (B) (Bulk Petroleum):**
  - assisted in the rapid and consistent contracting for terminal services at fuel storage facilities, including tactical Logistics Civil Augmentation Program arrangements for fuel operational support;
  - provided ready access to critical Petroleum, Oil, and Lubricants information through its Bulk Petroleum Common Operating Picture;
  - improved and accelerated the custody transfer, inventory, and in-transit visibility data collection through Automatic Identification Technology;
  - centralized the procurement for the fuel bladders to better respond to customer needs and reduce costs to the Military Services;
  - conducted a Defense Fuel Supply Point (DFSP) baseline assessment to gain a more comprehensive perspective of DoD fuel terminals worldwide regardless of the contracting activity;

- o improved training to better prepare Fuel Logisticians for Combatant Command and contingency support duties;
- o rewrote the Joint petroleum doctrine to help guide and improve operational planning, policy, and procedural document development; and
- o procured fuels equipment to help standardize equipment across the Military Services, where appropriate and where the impact was the greatest.

- **For Class IV (Construction and Barrier Materiel):**
  - o assigned Troop Support Planners (TSPs) to Combatant Commands to provide the warfighters with access to supply chain subject matter expertise;
  - o deployed TSPs to support USPACOM, U.S. Northern Command (USNORTHCOM), and USSOUTHCOM exercises;
  - o deployed TSPs to support contingencies in Iraq, Kuwait, and Kosovo. TSPs actively engaged the warfighter to better understand their needs and meet their requirements; and
  - o performed Logistics Sustainability Analyses, where the TSPs identified inventory support shortfalls and other potential trouble spots that were then addressed by implementing process improvements.

- **For Class VIII (Medical Materiel):**
  - o designated two new Theater Lead Agents for Medical Materiel (TLAMMs): the U.S. Army Medical Materiel Center-Korea (servicing U.S. Forces Korea and certain medical units located throughout the Pacific Rim) and the U.S. Army Medical Materiel Center-Europe (servicing USAFRICOM). These operational partners enabled visibility of tactical requirements from strategic levels and the programming and execution of strategic initiatives, which directly support tactical needs. Additionally, the TLAMMs provide a conduit which enables effective coordination and application of strategic assets and materiel sources into tactical distribution;
  - o developed and employed information technology solutions to improve materiel sourcing and standardization, reduced the amount of new item requests which need to be processed, and improved the effectiveness of materiel management and distribution;
  - o utilized almost $36 million in General Funds to meet the Warstopper surge and sustainment requirements of the Military Services and Combatant Commands. It is estimated that utilization of these funds will generate a rate of return of approximately 7:1;
  - o established the Defense Medical Logistics Supply Chain Council (DMLSCC) that provides a collaborative forum to unify the effort in promoting an effective and efficient medical supply chain support to DOD health care operations globally; and
  - o integrated initiatives into the Joint Military Health System Medical Logistics Executive Management Program (EMP) to support the balanced scorecard framework for all Defense Medical Logistics.

Joint Supply (JS) - Joint Integrating Concept (JIC): The JS-JIC is a future (8 to 20 years out) concept that will highlight and guide how the future Joint Force will be logistically supported and what future capabilities will be needed to provide that support. DLA is co-leading, along with the Joint Staff J4, a collaborative effort that includes the Office of the Secretary of Defense, the Military Services, the Combatant Commands, and other DoD components in the development of the JS-JIC. JS-JIC development activities in FY 2009 included gaining the Functional and Joint Capabilities Board's approval of the military problem statement, scope, central idea, and plan of action and milestones for development; and completion of an independent Red Team assessment and two Limited Objective Experiments that further tested and improved the concept. When completed, the JS-JIC will enable future capabilities-based assessments and the development of future joint supply capabilities.

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

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

The three recommendations will be fully implemented by September 15, 2011, enforced by law under the United States Congressional legislation.

With the BRAC 2005 Supply and Storage implementation, the Military Services and DLA are working to create an integrated end-to-end supply chain operation for DoD that will optimize warfighter support and readiness. The BRAC Supply and Storage recommendations, along with supporting systems and process changes, will: increase buying power with suppliers, create smoother materiel flow, reduce customer wait time for parts, achieve inventory investment savings, and reduce redundancy in processes for the Department, all of which enable logistics economies and efficiencies that improve support to operational joint and expeditionary forces. BRAC 2005 also expands DLA's role in DoD logistics, moving the Agency beyond its traditional wholesale role to becoming a broader integrated logistics provider. In addition, BRAC also drives supporting business process, policy, and information systems changes to enhance DLA's ability to fulfill its new mission and responsibilities. The following are descriptions and a summary of accomplishments for the three Supply and Storage recommendations:

- **Depot-Level Reparable (DLR) Procurement Management Consolidation (including Consumable Item Transfer):**
    - **DLR Procurement Management Consolidation:** This recommendation creates a new single, integrated depot-level reparable procurement management provider supporting all Military Services' requirements by realigning the procurement management and related support functions for the procurement of new DLRs from the Military Services to DLA. From October 2007 through February 2009, over 300 full-time equivalent (FTE) positions transferred in place from the Air Force, Navy, and Army to DLA. During that period, a

total of seven DLA DLR detachments – collocated at Air Force Air Logistics Centers, Naval Inventory Control Points, and Army Life Cycle Management Commands -- were activated. By September 2011, two remaining DLA DLR detachments will stand up, including one supporting the Marine Corps (Albany, GA) and another supporting the Army Communications and Electronics Command (Aberdeen, MD).

- o **Consumable Item Transfer (CIT):** The BRAC DLR recommendation also includes Consumable Item Transfer, which further consolidates consumable item management with one provider by transferring work related to the management of the remaining consumable items (except exempted items) from the Military Services to DLA. Over the course of implementing the CIT directive, which began in March 2007 and is slated for completion no later than September 2011, management responsibilities for more than 58,000 National Stock Numbers (NSNs) are projected to transfer to DLA. Thus far, the Military Services have transferred more than 36,000 NSNs to DLA.

- **Supply, Storage, and Distribution (SS&D) Management Reconfiguration:** This recommendation consolidates the supply, storage, and distribution functions and associated inventories at the current DLA Defense Distribution depots with the Military Services' maintenance activities to support operations, maintenance, and production. There are two parts to the BRAC SS&D recommendation: 1) consolidate the SS&D functions and inventory from 13 Military Service industrial depot maintenance sites to DLA; and 2) reconfigure the defense distribution network.

  - o **Integrated Maintenance Depot Supply, Storage, and Distribution Operations:** The transfers of SS&D functions, associated personnel, and inventory to DLA are progressing incrementally by Military Service. To date, a workforce of over 1,950 (including contractors) has transferred in place to establish nine of what will ultimately be 13 DLA SS&D sites (collocated with Military Service industrial depot maintenance operations). At all sites, support to Military Service industrial maintenance production lines continues without interruption.

    - ♦ Air Force – By the end of July 2008, SS&D functions and over 850 associated FTEs at three Air Logistics Centers transferred in place to DLA with the activation of DLA Warner Robins (GA); DLA Oklahoma City (OK), and DLA Ogden (UT). In August 2009, inventories at DLA Warner Robins were consolidated when over 66,600 DLA-managed national stock numbers with materiel valued at approximately $116 million transferred from the Air Force to DLA. To enable this inventory consolidation, EBS Inventory Management and Stock Positioning (IMSP) system functionality rolled out in August to support operations at DLA Warner Robins. Future inventory transfers and IMSP rollouts are currently scheduled to occur between November 2009 and July 2011 for the two remaining DLA SS&D sites supporting Air Force customers and the five DLA SS&D sites supporting Navy customers identified below.

    - ♦ Navy – By the end of February 2009, SS&D functions and approximately 570 associated FTEs in total at the Fleet and Industrial Supply Centers (FISCs) that support Fleet Readiness Centers (FRCs) East, Southeast, and Southwest transferred in place to DLA. These transfers formed three DLA SS&D sites: DLA Cherry Point (NC), DLA Jacksonville

(FL), and DLA North Island (CA). By the end of July 2009, SS&D functions and over 490 associated FTEs in total at two Naval Shipyards transferred to DLA to form two more DLA SS&D sites: DLA Norfolk Naval Shipyard (VA) and DLA Puget Sound Naval Shipyard and Intermediate Maintenance Facility (WA).

- ♦ Marine Corps – In September 2009, SS&D functions and approximately 25 associated FTEs transferred in place from Marine Corps Maintenance Center Albany to DLA, to form DLA Albany (Material Control Center) (GA). Marine Corps Maintenance Center Barstow (CA) is scheduled to transfer SS&D functions and associated FTEs in September 2010.
- ♦ Army – Tobyhanna Army Depot (PA) is scheduled to transfer SS&D functions and associated FTEs to DLA in FY 2010; two other Army Depots, Corpus Christi (TX) and Anniston (AL), are scheduled to transfer SS&D functions and associated FTEs in FY 2011.

o **Strategic Distribution:** This part of the BRAC SS&D recommendation reconfigures the DoD distribution network into four continental United States support regions, each having one Strategic Distribution Platform (SDP) and one or more Forward Distribution Points (FDPs). The current SDPs in San Joaquin, CA, and Susquehanna, PA, are being joined by new SDPs in Warner Robins, GA, and Oklahoma City, OK. The remaining 11 collocated distribution depots and one non-collocated depot are in the process of being reconfigured as FDPs. Their mission will be to provide storage and distribution support to collocated industrial customers and select local customers and to provide support for reimbursable work, end items, hard to handle items, and hazardous items. The entire Distribution Network will support global, regional, on-base, and industrial maintenance activities and is intended to create an efficient materiel flow for customers within a region; achieve inventory investment savings for DoD; and reduce customer wait time for parts. Specific activities underway include:

- ♦ Constructing a general purpose warehouse at SDP Susquehanna, PA to absorb materiel relocated from its regional FDPs.
- ♦ Conducting internal re-warehousing and storage optimization projects at SDP Warner Robins, GA to improve the efficiency and effectiveness of its operations.
- ♦ Constructing state-of-the-art consolidation, containerization and palletization capability at both SDP Warner Robins, GA and SDP Oklahoma City, OK.
- ♦ Conducting storage aid projects at SDP San Joaquin, CA to reconfigure the storage layout of its warehouses that will allow the re-warehousing of materiel; this will improve the efficiency and effectiveness of its operations.

The collective activities will drive infrastructure reductions at the FDPs and are scheduled to be completed by the end of September 2011. In addition, as the SDPs are made ready to receive inventories from the FDPs, plans for materiel movement are developed in close collaboration with DLA's customers and will be carefully executed to ensure that there is no detriment to warfighter support.

- **Commodity Management Privatization:** This recommendation charges DLA with the responsibility for privatizing DoD's entire logistics process for three commodity lines: tires; packaged petroleum, oils, and lubricants; and compressed gasses. Commodity Management Privatization requires DoD to disestablish the supply, storage, and distribution functions previously performed by DLA and the Military Services for these commodities and rely completely on private industry vendors to perform them. The privatization recommendation also transferred the supply contracting functions for these items from the Military Services to DLA. In executing this mandate, DLA assumed responsibility for these commodities from the Military Services and awarded four privatization contracts for land tires, aviation tires, chemicals and packaged petroleum products, and compressed and liquefied gasses and cylinders. Full implementation of all privatization contracts was completed in August 2008. For commodities covered under these contracts, vendors are responsible for 100% of the supply support for customers (CONUS).

Enterprise Business System (EBS): DLA's EBS capabilities will continue to be leveraged as a major transformation initiative. It will expand capabilities and benefits introduced under the Business Systems Modernization (BSM) Program by delivering additional standard systems and business processes through the integration of a family of software applications. The Agency will continue to leverage best practices and its commercially-based Commercial Off-the-Shelf (COTS) infrastructure to enable DLA to extend its EBS capabilities outward throughout the DoD supply chain. Specifically, the Agency is leveraging its existing core enterprise architecture components (SAP-based Enterprise Resource Planning (ERP) tool, Distribution Standard System (DSS), and Integrated Data Environment (IDE)) to enable a single, integrated, capability-based system that is accessible and of value to warfighters across the enterprise.

- **Energy Convergence**: As DLA's enterprise continues to extend across the DoD supply chain, a technology insertion effort is needed to enable the SAP Industry Solution Public Sector and the SAP Industry Solution Oil & Gas solutions to coexist in support of the Defense Energy Support Center (DESC) mission requirements. At the highest level DESC business processes and other DLA supply chain operations appear similar, but at a more detailed level there are differences to resolve. Energy Convergence will allow DLA to integrate fuels commodity management within the DLA Enterprise Architecture.

- **Enterprise Operational Accounting System (EOAS):** EOAS is a planned post-production enhancement that will add all operational accounting functions to EBS. The result will be an enterprise-wide financial system that complies with federal government accounting standards.

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

- **Eprocurement:** Eprocurement is a planned post-production enhancement that will integrate the Government Procurement software into EBS, replacing remaining legacy contract writing systems. Eprocurement will provide integrated procurement functional capabilities to the ERP system, and add DLA organizations not originally intended to be addressed by the BSM program, resulting in an enterprise-wide contracting system. It will enhance the Agency's ability to perform the depot-level reparable (DLR) procurement management mission that resulted from the BRAC 2005 DLR recommendation.

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

- **Reutilization Business Integration (RBI):** Formerly known as the Reutilization Modernization Program (RMP), RBI is DLA's strategy to replace the current Defense Reutilization and Marketing Service (DRMS) Automated Information System suite of applications. RBI will integrate requirements into DLA Enterprise Business System (EBS), Distribution Standard System (DSS), Document Automation & Production Service (DAPS), Integrated Data Environment (IDE), and Federal Logistics Information System (FLIS) for the RBI portfolio solution. This integration will incorporate DRMS Information Systems into the DLA Enterprise Information Technology (IT) Solution Set, with the intent of maximizing use of existing IT solutions in the execution of DRMS business.

- **DLA Real Property and Project Systems**: This is an integrated module within the DLA EBS that will standardize the enterprise-wide management of real property assets to include: management of Real Estate inventory and projects; visibility of environmental liabilities; financial compliance; and audit readiness.

Retail Integration: Retail integration is a transformational program to extend the DLA enterprise closer to the warfighter; and where DLA becomes a manager of complete supply chains – versus a manager of wholesale supplies. Instead of merely operating as a wholesaler, DLA will take supply ownership and management from the factory to the ultimate customer. By using Department-wide initiatives (such as the National Inventory Management Strategy (NIMS); Joint Regional Inventory Materiel Management (JRIMM); Joint Environmental Materiel Management Service (JEMMS); and the implementation of the BRAC Supply, Storage, and Distribution (SS&D) Management Reconfiguration recommendation), DLA will replace distinct wholesale and retail inventories with a national inventory that can be managed in a more integrated manner. Through FY 2009, DLA has rolled-out NIMS to six locations: the Joint Environmental Materiel Management Service Center, Okinawa; Naval Station Ingleside, TX; Naval Air Station Whidbey Island, WA; Naval Air Weapons Station China Lake, CA; Marine Corps Air Station Miramar, CA; and Naval Auxiliary

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

Forward Logistics: Forward Logistics is the net sum of the DLA Enterprise efforts to perform end-to-end supply chain management on the eight DLA supply chains - Aviation, Maritime, Land, Construction & Equipment, Subsistence, Clothing & Textiles, Medical, and Energy. In managing these supply chains, DLA's efforts in FY 2009 continued to focus on supporting two of DLA's Strategic Goals: extending the Enterprise and continuing to improve performance. The Enterprise accomplishments include those outlined in the discussion of Retail Integration, as well as building on/expanding the Customer Demand Collaboration initiative begun under the BSM/EBS program. Looking forward, we see these efforts (retail integration and customer demand collaboration) coalescing into a collaboratively extended supply chain with close involvement of customer requirements generators and ultimate consumers of DLA's goods and services.

Reverse Logistics: Reverse Logistics in DLA consists primarily of two components: the Materiel Returns Program, which equates to the 'Return' process of the Supply Chain Operations Reference Model of supply chain management; and the reutilization services performed by the Defense Reutilization and Marketing Service (DRMS). Under the Materiel Returns Program, customers return materiel that they no longer need to the wholesale supply chain to support other customers' requirements. Each year DLA processes $400 million to $500 million of the Military Services' excess materiel through the Materiel Returns Program which results in approximately $70 million to $100 million in annual inventory investment savings. These assets, in turn, preclude the need to initiate procurement actions to acquire inventory to meet projected requirements, thus improving both the efficiency and effectiveness of supply chain management. The DRMS reutilization mission, which is described in the Reutilization and Marketing Activity Group Overview section of this report, primarily involves receiving materiel that is no longer needed by a component of the DoD and making it available to all of the components of the Department. During FY 2009, DoD reutilized $1.9 billion worth of excess inventory. Collectively, these efforts optimize the use of materiel that is available to the Department and help minimize the investment in inventory.

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

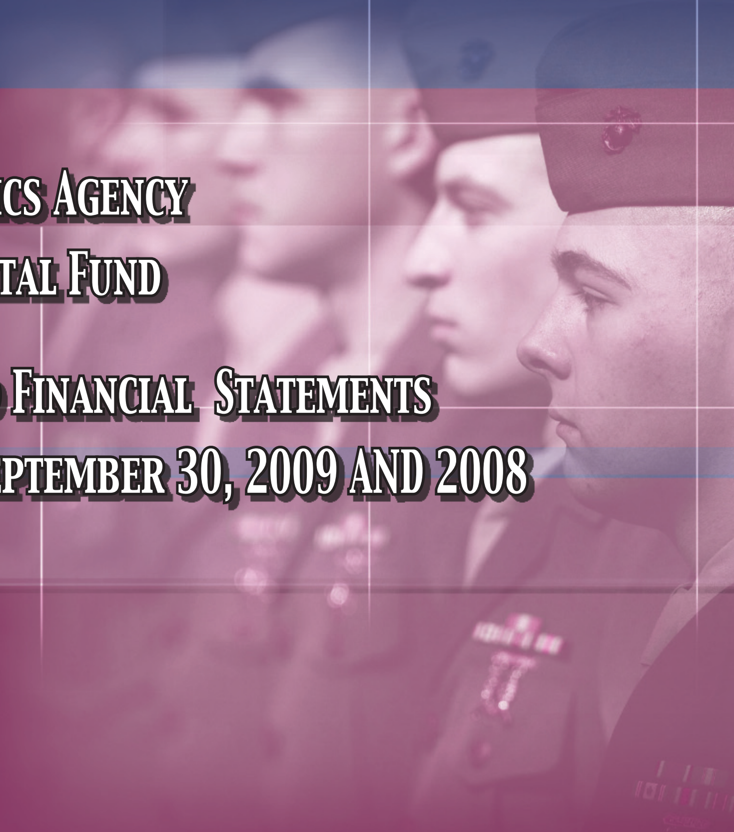
Enterprise Organizational Alignment (EOA) establishes DLA Enterprise policy regarding Organizational Alignment (OA) change, the principles to be followed in the design and implementation of OA change, the processes for securing approval of change proposals, and the process for executing such change.

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

Reservists: Among the manpower available to DLA were 733 reservists - authorized and funded by the Military Services. The reservists are utilized by DLA in a variety of capacities in support of peacetime operations, contingencies, and wartime surges. Since September 11, 2001, the wartime surges were supported with the mobilization of 599 reservists who served a total of 798 tours of duty in support of Operations Enduring Freedom and Iraqi Freedom in the Global War on Terrorism. During FY 2009, 90 reservists mobilized and provided support to DLA's three Support Teams (DSTs) in Kuwait, Iraq, and Afghanistan, while three reservists staffed the Sustainment Division of the U.S. Central Command's Deployment and Distribution Operations Center. Collectively, activated reservists logged more than 23,500 man-days of support to DSTs, field activities, and headquarters missions. In addition, to those deployed overseas, reservists provided more than 7,000 man-days of operational support to the various stateside DLA activities during their statutory annual training.

DEFENSE LOGISTICS AGENCY
WORKING CAPITAL FUND

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008



Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,154,782	$ 632,209
Other Assets (Note 6)	125,009	124,980
Total Intragovernmental Assets	1,279,791	757,189
Cash and Other Monetary Assets (Note 7)	10,010	9,775
Accounts Receivable, Net (Note 5)	371,195	781,421
Inventory and Related Property, Net (Note 9)	17,340,386	21,620,021
General Property, Plant, and Equipment, Net (Note 10)	1,993,258	1,888,857
Other Assets (Note 6)	23,405	25,685
TOTAL ASSETS	21,018,045	25,082,948
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	95,551	114,351
Other Liabilities (Notes 15 & 16)	52,837	68,429
Total Intragovernmental Liabilities	148,388	182,780
Accounts Payable (Note 12)	3,129,658	3,050,001
Military Retirement and Other Federal Employment Benefits (Note 17)	232,820	236,426
Environmental and Disposal Liabilities (Note 14)	76,347	91,494
Other Liabilities (Notes 15 & 16)	246,682	227,807
TOTAL LIABILITIES	3,833,895	3,788,508
NET POSITION		
Cumulative Results of Operations – Other Funds	17,184,150	21,294,440
TOTAL NET POSITION	17,184,150	21,294,440
TOTAL LIABILITIES AND NET POSITION	$ 21,018,045	$ 25,082,948

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

	2009	2008
PROGRAM COSTS		
Gross Costs	$ 44,049,518	$ 41,020,264
Less: Earned Revenue	(39,570,186)	(42,788,025)
Net Program Costs	4,479,332	(1,767,761)
NET COST OF OPERATIONS	$ 4,479,332	$ (1,767,761)

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,294,440	$ 17,689,086
Budgetary Financing Sources:		
Appropriations used	423,335	317,771
Transfers-in/out without reimbursement (+/-)	-	(40,000)
Other Financing Sources:		
Donations and forefeitures of property	-	-
Transfers-in/out without reimbursement (+/-)	(216,918)	1,417,932
Imputed financing from costs absorbed by others	162,625	141,890
Total Financing Sources	369,042	1,837,593
Net Cost of Operations (+/-)	4,479,332	(1,767,761)
Net Change	(4,110,290)	3,605,354
Cumulative Results of Operations	17,184,150	21,294,440
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	423,335	342,975
Appropriations transferred-in/out (+/-)	-	-
Other adjustments (rescissions, etc.) (+/-)	-	(25,204)
Appropriations used	(423,335)	(317,771)
Ending Balances	-	-
NET POSITION	$ 17,184,150	$ 21,294,440

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 22,761	$ (23,848)
Recoveries of prior year unpaid obligations	2,382,479	1,295,519
Budget authority		
Appropriation	423,335	342,975
Contract authority	37,632,472	47,867,268
Spending authority from offsetting collections:		
Earned		
Collected	38,123,170	41,634,578
Change in receivables from Federal sources	21,259	30,257
Change in unfilled customer orders		
Advance received	(32,160)	1,997
Without advance from Federal sources	17,957	714,883
Subtotal	76,186,033	90,591,958
Nonexpenditure transfers, net, anticipated and actual	-	(40,000)
Permanently not available	(40,584,206)	(43,595,741)
Total Budgetary Resources	$ 38,007,067	$ 48,227,888

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Combined Statements of Budgetary Resources (Continued)
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 38,014,372	$ 48,205,128
Subtotal	38,014,372	48,205,128
Unobligated balance:		
Apportioned	-	22,761
Exempt from apportionment	(7,305)	-
Subtotal	(7,305)	22,761
Unobligated balance not available	-	(1)
Total Status of Budgetary Resources	38,007,067	48,227,888
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	20,964,246	16,960,614
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(7,979,870)	(7,234,730)
Total unpaid obligated balance, net	12,984,376	9,725,884
Obligations incurred, net	38,014,372	48,205,128
Less: Gross outlays	(37,748,514)	(42,905,975)
Less: Recoveries of prior year unpaid obligations, actual	(2,382,479)	(1,295,519)
Change in uncollected customer payments from Federal sources (+/-)	(39,216)	(745,139)
Obligated balance, net, end of period		
Unpaid obligations	18,847,625	20,964,248
Less: Uncollected customer payments from Federal sources (+/-)	(8,019,086)	(7,979,869)
Total unpaid obligated balance, net, end of period	10,828,539	12,984,379
Net Outlays:		
Gross outlays	37,748,514	42,905,975
Less: Offsetting collections	(38,091,010)	(41,636,576)
Net Outlays	$ (342,496)	$ 1,269,399

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
Working Capital Fund

Notes to the Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2009 and 2008

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Defense Logistics Agency (DLA) Working Capital Fund (WCF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of DLA in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD) Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which DLA is responsible unless otherwise noted.

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

The DLA is unable to fully implement all elements of USGAAP and the OMB Circular A 136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The DLA derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The DLA continues to implement process and system improvements addressing these limitations.

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

B. Mission of the Reporting Entity

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

The DLA provides supply support, technical/logistics services and quality support to all branches of the Military and other nonDoD customers. The services provided fall into the following activity groups: Supply Management, Defense Distribution Center (DDC), Defense Reutilization and Marketing Service (DRMS), and Document Automation & Production Service (DAPS). Supply Management is comprised of NonEnergy Supply and Energy Supply. NonEnergy Supply is further divided into the following supply chains: Clothing and Textiles, Medical, Subsistence, Construction and Equipment, Aviation, Land, and Maritime.

The DLA continues to leverage its operational efficiencies to implement the Base Realignment and Closure 2005 Supply and Storage recommendations. The DLA has engaged in the following transformational initiatives with the Military Departments: (1) Commodity Management Privatization to privatize the supply and storage of selected commodities (i.e., tires, compressed gases and petroleum, oil, lubricant packages), (2) Depot - Level Reparable (Procurement Management/ Consumable Item Transfer) to realign procurement management of repair parts from the Military Services to DLA at selected sites and to transfer supply management of selected consumable items to DLA, and (3) Supply, Storage and Distribution Reconfiguration to realign supply, storage and distribution functions through consolidation and management reconfiguration at 13 sites.

C. Appropriations and Funds

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

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

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

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

The DLA WCF activities recognize revenue from the sale of inventory items and services.

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

F. Recognition of Expenses

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

G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, DLA cannot accurately identify intragovernmental transactions by customer because DLA's systems do not track buyer and seller data at the transaction level. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for reconciliations.

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

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

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

H. Transactions with Foreign Governments and International Organizations

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

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

I. Funds with the U.S. Treasury

The DLA's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S.

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

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account.

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included in the Defense-Wide Working Capital Fund (DWWCF), a TI 97 DWCF appropriation sub-numbered account. This account is maintained at an aggregate level that does not provide identification of the separate Defense Agencies. Additionally, while DLA maintains collection and disbursement clearing accounts, those cash balances are transferred to the DWWCF cash account on an annual basis. As a result, DLA does not report FBWT separately. The DLA's balance in the DWWCF cash account as of 4th Quarter, Fiscal Year (FY) 2009 is $1.3 billion.

J. Foreign Currency

Not Applicable to DLA WCF.

K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon the Analysis of Receivables by Age Group Method, with the exception for the Energy business area. Energy uses the General Reserve Method based on bad debt experience and changes in outstanding accounts receivable balance. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

Exchange transactions such as FEAs must be settled through the issuance or receipt of replacement supplies or services within 12 months of the original transaction according to current DoD policy. As the settlement of the exchange transactions is authorized to take up to 12 months, the analysis of the nonfederal accounts receivable balances greater than 180 days old could be distorted. To assist in the analysis, Note 5, Accounts Receivable, separates FEA transaction balances from the remainder of the nonfederal accounts receivable. Currently, upon reconciliation the purchases of fuel from foreign governments are netted against their accounts receivable balances.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA WCF.

M. Inventories and Related Property

The DLA values approximately 76% of its resale inventory using the moving average cost method. An additional 24% (fuel inventory) is reported using the first-in-first-out method. The DLA reports a negligible value of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The DLA is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

The DLA manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in DLA's materiel management activities. Operational cycles are irregular and the military risks associated with stock out positions have no commercial parallel. The DLA holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale" with a completion date of year-end FY 2010 reporting.

Excess, obsolete, or unserviceable operating materiels and supplies are reported at their net realizable value. The DLA recognizes condemned materiel as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by DLA. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. Often, it is more economical to repair these items rather than to procure them. The DLA often relies on weapon systems and machinery no longer in production. As a result, DLA supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, direct labor, applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated cost incurred in the delivery of maintenance services.

N. Investments in U.S. Treasury Securities

Not Applicable to DLA WCF.

O. General Property, Plant and Equipment

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

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

The WCF capitalizes all General PP&E used in the performance of their mission. These capitalized assets are categorized as General PP&E, whether or not it meets the definition of any other General PP&E categories.

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

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

P. Advances and Prepayments

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

Q. Leases

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

R. Other Assets

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

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

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

S. Contingencies and Other Liabilities

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

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

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

T. Accrued Leave

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

U. Net Position

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

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

Cumulative Results of Operations represent the net difference, between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

V. Treaties for Use of Foreign Bases

Not Applicable to DLA WCF.

W. Unexpended Obligations

The DLA obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations include both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as "Total, unpaid obligated balances, net, end of period."

X. Undistributed Disbursements and Collections

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

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

Y. Significant Events

Not Applicable to DLA WCF.

Z. Fiduciary Activities

Not Applicable to DLA WCF.

Note 2. Nonentity Assets

As of September 30	2009	2008
(Amounts in thousands)		
Nonfederal Assets		
Cash and Other Monetary Assets	$ 10,010	9,775
Accounts Receivable	4,554	2,745
Total Nonfederal Assets	$ 14,564	$ 12,520
Total Nonentity Assets	$ 14,564	$ 12,520
Total Entity Assets	$ 21,003,481	$ 25,070,428
Total Assets	$ 21,018,045	$ 25,082,948

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

Cash and Other Monetary Assets consist of cash collected by the Defense Reutilization and Marketing Service (DRMS) that will be paid to other entities. When DRMS enters into a long-term contract with a buyer purchasing excess/surplus government property or scrap, DRMS requires a prepayment. After contract closeout, any remaining balance is refunded to the sales contractor. Also included are credit card collections that are payable to DRMS' commercial sales partner and the portion of sales proceeds from certain types of property that DRMS is required to return to the Military Services or Defense Agencies that originally owned the property.

The Nonfederal Accounts Receivable consists of interest, penalties, and administrative fees that are related to the Nonfederal accounts receivable that have been referred to Defense Finance and Accounting Service debt management for collection. This accounts receivable is nonentity because upon collection the amounts will be transferred to the U.S. Treasury.

Note 3. Fund Balance with Treasury

The U.S. Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DLA, are included in the Defense-Wide Working Capital Fund (DWWCF), a TI 97 DWCF appropriation sub-numbered account. This account is maintained at an aggregate level that does not provide identification of the separate Defense Agencies. Additionally, while DLA maintains collections and disbursement clearing accounts, those cash balances are transferred to the DWWCF cash account on an annual basis. As a result, DLA does not report Fund Balance with Treasury (FBWT) separately. The DLA balance in the DWWCF cash account as of the 4th Quarter, FY 2009 is $1.3 billion.

Status of Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
Unobligated Balance Available	$ (7,305)	$ 22,761
Obligated Balance not yet Disbursed	18,847,626	20,964,247
NonFBWT Budgetary Accounts	(17,506,419)	(20,418,937)
Total	$ 1,333,902	$ 568,071

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

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

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

NonFBWT Budgetary Accounts reduces the Status of FBWT. DLA's NonFBWT Budgetary Accounts consists of contract authority, unfilled customer orders without advance and accounts receivable.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. There are no restrictions on DLA's unobligated balances.

The DLA's FBWT is zero as the net of DLA's current year disbursements, collections, cash transfers, and appropriations received are transferred to the DWCF cash account. The Total represents what DLA's FBWT would have been if the transfers to the cash account had not taken place.

Note 4. Investments and Related Interest

Not Applicable to DLA Working Capital Fund.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 1,154,782	N/A	$ 1,154,782
Nonfederal Receivables (From the Public)	$ 455,744	$ (84,549)	$ 371,195
Total Accounts Receivable	$ 1,610,526	$ (84,549)	$ 1,525,977

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 632,209	N/A	$ 632,209
Nonfederal Receivables (From the Public)	$ 839,483	$ (58,062)	$ 781,421
Total Accounts Receivable	$ 1,471,692	$ (58,062)	$ 1,413,630

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 84	$ 55
Other Assets	124,925	124,925
Total Intragovernmental Other Assets	$ 125,009	$ 124,980
Nonfederal Other Assets		
Outstanding Contract Financing Payments	23,090	23,590
Advances and Prepayments	315	2,095
Other Assets (With the Public)	0	0
Total Nonfederal Other Assets	$ 23,405	$ 25,685
Total Other Assets	$ 148,414	$ 150,665

Composition of Other Lines

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

Contract Financing Payments

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

The Contract Financing Payment balance of $23.0 million is comprised of $15.6 million in contract financing payments and an additional $7.4 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

Note 7. Cash and Other Monetary Assets

As of September 30	2009	2008
(Amounts in thousands)		
Cash	$ 10,010	$ 9,775
Total Cash, Foreign Currency, & Other Monetary Assets	$ 10,010	$ 9,775

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

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA Working Capital Fund.

Note 9. Inventory and Related Property

As of September 30	2009	2008
(Amounts in thousands)		
Inventory, Net	$ 17,340,386	$ 21,620,021
Total	$ 17,340,386	$ 21,620,021

Inventory, Net

As of September 30	2009			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
Inventory Categories				
Available and Purchased for Resale	$ 17,309,958	$ (1)	$ 17,309,957	LAC,MAC
Held for Repair	50,715	(20,286)	30,429	LAC,MAC
Excess, Obsolete, and Unserviceable	5,997,472	(5,997,472)	0	NRV
Total	$ 23,358,145	$ (6,017,759)	$ 17,340,386	

As of September 30	2008			
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in thousands)				
Inventory Categories				
Available and Purchased for Resale	$ 21,609,418	$ (11)	$ 21,609,407	LAC,MAC
Held for Repair	17,689	(7,075)	10,614	LAC,MAC
Excess, Obsolete, and Unserviceable	5,811,994	(5,811,994)	0	NRV
Total	$ 27,439,101	$ (5,819,080)	$ 21,620,021	

Legend for Valuation Methods:
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses; NRV = Net Realizable Value; MAC = Moving Average Cost

Restrictions

The DLA has restrictions of $3.8 million related to inventory in litigation. Inventory in litigation (condition code L) is materiel held pending litigation or negotiation with contractors or common carriers, and remains in condition code L until negotiated or settled.

General Composition of Inventory

The DLA inventory is comprised of Supply Chain Management and Energy Management. The Supply Chain Management inventory is reported in the Enterprise Business System (EBS). Energy Management is reported in Business System Modernization - Energy (BSM-E).

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

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

As of 4th Quarter, FY 2009, DLA reported $12,863.6 million inventory using Moving Average Cost, $4,474.0 million inventory using Transactional First-In, First-Out and $73.0 thousand inventory valued in Latest Acquisition Cost.

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

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

U.S. Standard General Ledger Account	Supply Condition Code
1521 Inventory Purchased For Resale	A Serviceable Issuable Without Qualification B Serviceable Issuable With Qualification C Serviceable Priority Issue D Serviceable Test/Modification

1522 Inventory Held in Reserve for Future Sale	E Unserviceable Reparable (Limited Cost to Restore) J Suspended (In Stock) K Suspended (Returns) L Suspended (In Litigation) Q Suspended (Quality Deficient Exhibits)
1523 Inventory Held For Repair	F Unserviceable Reparable G Unserviceable Incomplete M Suspended (In Work) R Suspended (Reclaimed Items, Awaiting Condition Determination)
1524 Inventory Excess, Obsolete, or Unserviceable	Use this account to record amounts for inventory that is NOT reportable in USSGL accounts 1521, 1522, or 1523. The inventory reported using this account must be valued at its Net Realizable Value. **[Includes Serviceable and Unserviceable Excess Inventory]**

Minimum Inventory Levels

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

Petroleum inventories are comprised mostly of products with military specification and are stocked primarily to meet wartime operation plans and to ensure that DLA has sufficient stocks in place to minimize any risk to the warfighter. Wartime petroleum requirements are calculated by Military Services and coordinated with Combatant Commanders. The DLA's Energy Management then works with the Combatant Commanders to position those stocks where space permits and within the funded volumes. The current wartime stockage objective is 34.5 million barrels (mbbls). Peacetime bulk petroleum inventory requirements are calculated by Energy Management in accordance with guidelines provided by OUSD(C), and are positioned by Energy Management prior to placing war reserve inventories. The peacetime objective is 25.7 mbbls. These inventories are not physically segregated in tankage, meaning that wartime (appropriated funded) stocks can be used to meet peacetime (working capital funded) requirements.

Note 10. General PP&E, Net

As of September 30	2009							
	Depreciation / Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation / Amortization)		Net Book Value
(Amounts in thousands)								
Major Asset Classes								
Buildings, Structures, and Facilities	S/L	20 or 40	$	2,068,923	$	(1,312,750)	$	756,173
Software	S/L	2-5 or 10		1,389,693		(562,969)		826,724
General Equipment	S/L	5 or 10		657,425		(394,690)		262,735
Construction-in-Progress	N/A	N/A		147,416		N/A		147,416
Other				266		(56)		210
Total General PP&E			$	4,263,723	$	(2,270,465)	$	1,993,258

As of September 30	2008							
	Depreciation / Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation / Amortization)		Net Book Value
(Amounts in thousands)								
Major Asset Classes								
Buildings, Structures, and Facilities	S/L	20 or 40	$	1,907,449	$	(1,253,979)	$	653,470
Software	S/L	2-5 or 10		1,352,953		(523,504)		829,449
General Equipment	S/L	5 or 10		650,015		(399,640)		250,375
Construction-in-Progress	N/A	N/A		155,563		N/A		155,563
Total General PP&E			$	4,065,980	$	(2,177,123)	$	1,888,857

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

Restrictions

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

Heritage Assets and Stewardship Land

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

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

Composition of Other Lines

Major Asset Classes Other of $210 thousand consist of a tractor with cab that was transferred from the Defense Property Accountability System into the Enterprise Business System with an incorrect asset class. The incorrect posting resulted in the asset being reflected in Major Asset Classes Other instead of Equipment. DLA will correct this posting issue during 1st Quarter, FY 2010.

Assets Under Capital Lease

As of 4th Quarter, FY 2009, DLA did not have any leases that met the capitalization threshold. Refer to Note 10, General Property, Plant and Equipment, for further details.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 24,437	$ 25,596
Total Intragovernmental Liabilities	$ 24,437	$ 25,596
Nonfederal Liabilities		
Military Retirement and Other Federal Employment Benefits	232,821	236,427
Environmental Liabilities	9,237	25,102
Other Liabilities	4	13,234
Total Nonfederal Liabilities	$ 242,062	$ 274,763
Total Liabilities Not Covered by Budgetary Resources	$ 266,499	$ 300,359
Total Liabilities Covered by Budgetary Resources	$ 3,567,396	$ 3,488,149
Total Liabilities	$ 3,833,895	$ 3,788,508

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

Composition of Other Lines

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

Nonfederal Liabilities Other consists of contingent legal liabilities.

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of employee actuarial FECA liabilities estimated to be payable in a future fiscal year in the amount of $232.8 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 95,551	$ N/A	$ 95,551
Nonfederal Payables (to the Public)	3,129,646	12	3,129,658
Total	$ 3,225,197	$ 12	$ 3,225,209

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 114,351	$ N/A	$ 114,351
Nonfederal Payables (to the Public)	3,049,438	563	3,050,001
Total	$ 3,163,789	$ 563	$ 3,164,352

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

Not Applicable to DLA Working Capital Fund.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2009	2008
(Amounts in thousands)		
Environmental Corrective Action	$ 76,347	$ 91,494
Total Environmental Liabilities	$ 76,347	$ 91,494

Environmental Disclosures

The DLA's Environmental Liabilities (EL) are from current and out-year Remedial Action Cost Engineering and Requirements (RACER) estimates related to DLA's Defense Energy Support Center for 262 sites; 207 sites associated with closure costs, and 55 sites are corrective action costs. In August 2008, DLA executed the RACER model to generate the fiscal year (FY) 2009 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

The DLA has developed a plan for collecting and reporting EL for Non-Defense Environmental Restoration Program (Non-DERP) contamination at DLA managed installations including government-owned contractor-operated fuel points and for Service-owned and operated fuel terminals where DLA stores fuel. To obtain the Service-owned fuel terminals data, DLA developed an environmental template that will be provided to the Military Services after the Office of the Under Secretary of Defense (Comptroller) resolves real property record inconsistencies between the Military Services and DLA.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

The DLA has cleanup requirements for Non-DERP installations. All cleanup is done in coordination with regulatory agencies, other responsible parties, and current property owners.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The DLA uses the RACER model, an independently validated model, to estimate environmental costs. The RACER Steering Committee validates the model in accordance with Department of

Defense (DoD) Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation.

The DLA provides RACER estimated Non-DERP costs associated with General Property, Plant, and Equipment (General PP&E). Initial data on the environmental cost linked to General PP&E was gathered during FY2006 and is the basis for the development, implementation, and reporting. In accordance with the DoD FMR Volume 4, Chapter 13, the General PP&E removal and site restoration costs will be amortized over the expected life of the asset.

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

The DLA had changes in estimates for FY 2009 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA is not aware of any pending changes but the EL are expected to fluctuate due to changes in laws and regulations, change in agreements with regulatory agencies, and advances in technology. The FY 2009 CTC has incorporated the DoD inflation factors into the Non-DERP closure estimates. The latest version of RACER (2009 version 10.2) was used to rebaseline estimates.

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

The EL for DLA are based on accounting estimates which require certain judgments and assumptions that are reasonable based upon information available at the time of the RACER calculation. The actual results may vary materially from the accounting estimates if regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if ongoing or future investigation discloses contamination levels that differ from expected values.

Although DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible, they are generally considered accurate at +/- 20%. This percentage is supported by a 2004 RACER validation. RACER is currently undergoing another validation that will provide updated supporting statistical analysis. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

In addition to the liabilities reported above, DLA has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The DLA is unable to provide a reasonable estimate at this time because the extent of the restoration required is not known.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
Advances from Others	$ 4,143	$ 0	$ 4,143
FECA Reimbursement to the Department of Labor	0	30,293	30,293
Custodial Liabilities	4,554	0	4,554
Employer Contribution and Payroll Taxes Payable	13,847	0	13,847
Total Intragovernmental Other Liabilities	$ 22,544	$ 30,293	$ 52,837
Nonfederal			
Accrued Funded Payroll and Benefits	$ 223,238	$ 0	$ 223,238
Advances from Others	5,587	0	5,587
Deposit Funds and Suspense Accounts	10,038	0	10,038
Contract Holdbacks	1	359	360
Employer Contribution and Payroll Taxes Payable	13	0	13
Contingent Liabilities	4	7,442	7,446
Total Nonfederal Other Liabilities	$ 238,881	$ 7,801	$ 246,682
Total Other Liabilities	$ 261,425	$ 38,094	$ 299,519

OtherLiabilities (Continued):

As of September 30	2008		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
Advances from Others	$ 24,642	$ 0	$ 24,642
FECA Reimbursement to the Department of Labor	7,030	22,997	30.027
Custodial Liabilities	2,580	0	2,580
Employer Contribution and Payroll Taxes Payable	11,180	0	11,180
Total Intragovernmental Other Liabilities	$ 45,432	$ 22,997	$ 68,429
Nonfederal			
Accrued Funded Payroll and Benefits	$ 183,675	$ 0	$ 183,675
Advances from Others	17,052	0	17,052
Deposit Funds and Suspense Accounts	9,929	0	9,929
Accrued Unfunded Annual Leave	8,209	0	8,209
Contract Holdbacks	53	225	278
Employer Contribution and Payroll Taxes Payable	13	0	13
Contingent Liabilities	5,026	3,625	8,651
Total Nonfederal Other Liabilities	$ 223,957	$ 3,850	$ 227,807
Total Other Liabilities	$ 269,389	$ 26,847	$ 296,236

Contingent Liabilities

Contingent Liabilities includes $7.5 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The DLA is under no obligation to pay contractors for amounts greater than the amounts authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of potential future payments are estimable, DLA has recognized a contingent liability for estimated future payments which are conditional pending delivery and government acceptance.

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

Note 16. Commitments and Contingencies

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

The DLA has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The DLA records Judgment Fund liabilities in Note 12, Accounts Payable, and Note 15, Other Liabilities.

The DLA has a reasonably possible loss contingency of $47 thousand. This contingency is from four cases in which the OGC is the party. The DLA's Case Management System (CMS) is used by OGC to project the outcome and value of open cases. The CMS projects a minimum liability of approximately $47 thousand and a maximum liability of approximately $1.5 million.

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

Environmental Contingencies

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

Potential Loss Related to Economic Price Clause Contracts

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further details.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
FECA	$ 232,820		$ 0	$ 232,820
Total Other Actuarial Benefits	$ 232,820		$ 0	$ 232,820
Total Military Retirement and Other Federal Employment Benefits:	$ 232,820		$ 0	$ 232,820

As of September 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
FECA	$ 236,426		$ 0	$ 236,426
Total Other Actuarial Benefits	$ 236,426		$ 0	$ 236,426
Total Military Retirement and Other Federal Employment Benefits:	$ 236,426		$ 0	$ 236,426

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2009 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

4.223% in Year 1
4.715% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2009 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2009 projection to the average pattern for the projections for the most recent three years.

Programs Upon Which Actuarial Calculation are Based (Retirement Systems)

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

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

As of September 30	2009	2008
(Amounts in thousands)		
Intragovernmental Costs	$ 1,538,962	$ 1,603,792
Public Costs	42,510,556	39,416,472
Total Costs	$ 44,049,518	$ 41,020,264
Intragovernmental Earned Revenue	$ (34,491,729)	$ (36,331,341)
Public Earned Revenue	(5,078,457)	(6,456,684)
Total Earned Revenue	$ (39,570,186)	$ (42,788,025)
Net Cost of Operations	$ 4,479,332	$ (1,767,761)

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

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

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

The DLA accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations. The DLA has not identified any costs for acquiring, constructing, improving, reconstructing, or renovating heritage assets as of 4th Quarter, FY 2009.

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

No disclosures required.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 15,217,250	$ 17,330,117
Total	$ 15,217,250	$ 17,330,117

Abnormal Balance

USSGL Account 4982 ($3,611,885.01) Upward Adjustment of Prior Year Delivered Orders - Obligations, Paid.

During 1st Quarter, FY 2009, DLA added new functionality to the Enterprise Business System with the SAP Upgrade 6.0. The upgrade included changes to correct discrepancies between budgetary and proprietary accounts, which included USSGL 4982. The DLA and DFAS have determined that a number of transactions have posted to this account as normal and abnormal since the upgrade. We are continuing to research the abnormal transactions to identify the issues and actions needed to correct the problem.

The DLA anticipates the abnormal transactions will be corrected during FY 2010.

USSGL Account 4620 ($7,304,687.84) Unobligated Funds Exempt from Apportionment.

In FY 2008, Documentation Automated and Production Service (DAPS) recorded positive Annual Operating Results (AOR). To bring DAPS AOR closer to the breakeven point, OSD mandated lower billing rates for FY 2009. As a result of the lower rates, obligations exceeded the current year spending authority from offsetting collections. In addition, DAPS is researching their disbursements reflected on the Treasury Report to validate outlays and determine the impact on obligations.

This abnormal balance does not reflect a violation of the Anti-Deficiency Acts (ADA) because violations of the ADA are measured at the Defense Working Capital Fund level, where there is not an abnormal unobligated balance.

Apportionment Categories for Obligations

The DLA had apportionment category B reimbursable obligations incurred totaling $38.0 billion.

Other Disclosures

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

The DLA received $423.3 million in direct appropriations through 4th Quarter, FY 2009. In 1st Quarter, FY 2009, NonEnergy Supply received $32.9 million in funding for increased requirements for the Reutilization, Transfer and Donation program, and for DFAS system costs. In 3rd Quarter, FY 2009, an additional $390.4 million was received in Supplemental funding, of which $322.4 million supported Energy Supply costs for terminal operations, combat losses and fuel transportation costs, $33.6 million was provided for Defense Distribution Center shipping point and distribution costs in Kuwait, and $34.4 million for Defense Reutilization and Marketing Service in support of Overseas Contingency Operations.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 38,014,372	$ 48,205,128
Less: Spending authority from offsetting collections and recoveries (-)	(40,512,705)	(43,677,234)
Obligations net of offsetting collections and recoveries	(2,498,333)	4,527,894
Net Obligations	$ (2,498,333)	$ 4,527,894
Other Resources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	(216,918)	1,417,932
Imputed financing from costs absorbed by others	162,625	141,890
Net Other Resources Used to Finance Activities	$ (54,293)	$ 1,559,822
Total Resources Used to Finance Activities	$ (2,552,626)	$ 6,087,716
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Undelivered Orders (-)	2,112,867	(3,586,762)
Unfilled Customer Orders	(14,204)	716,880
Resources that fund expenses recognized in prior Periods (-)	(32,697)	(9,363)
Resources that finance the acquisition of assets (-)	(30,751,891)	(36,406,594)
Other (+/-)	216,917	(1,417,931)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ (28,469,008)	$ (40,703,770)
Total Resources used to Finance the Net Cost of Operations	$ (31,021,634)	$ (34,616,054)

Reconciliation of Net Cost of Operations to Budget (Continued):

As of September 30	2009	2008
(Amounts in thousands)		
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	$ 0	$ 1,230
Increase in environmental and disposal Liability	0	18,850
Increase in exchange revenue receivable From the public (-)	(5)	0
Other (+/-)	2,134	20,504
Total Components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 2,129	$ 40,584
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 140,606	$ 197,221
Revaluation of assets or liabilities (+/-)	797,314	(200,007)
Cost of Goods Sold	34,550,789	32,784,825
Other	10,128	25,670
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 35,498,837	$ 32,807,709
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 35,500,966	$ 32,848,293
Net Cost of Operations	$ 4,479,332	$ (1,767,761)

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

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

The amount of $41.1 thousand of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost (SoNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems, to Other Components Not Requiring or Generating Resources.

The following note schedule lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

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

Composition of Other Lines

Resources Used to Finance Items Not Part of Net Cost of Operations: Other consists of transfers in from other activities and transfers out to other activities. This includes the end of quarter Fund Balance with Treasury (FBWT) that is transferred to or from Defense-Wide Working Capital Fund (DWWCF) component level, where the DWWCF FBWT is managed. Refer to Note 1.I., Significant Accounting Policies, Funds with the U.S. Treasury, for further details and disclosures.

Components Requiring or Generating Resources in Future Period: Other consists of worker's compensation and Federal Employees Compensation Act.

Components Not Requiring or Generating Resources: Other is comprised of changes in the allowance for bad debt and Cost Capitalization Offset.

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable to DLA Working Capital Fund.

Note 23. Earmarked Funds

Not Applicable to DLA Working Capital Fund.

Note 24. Fiduciary Activities

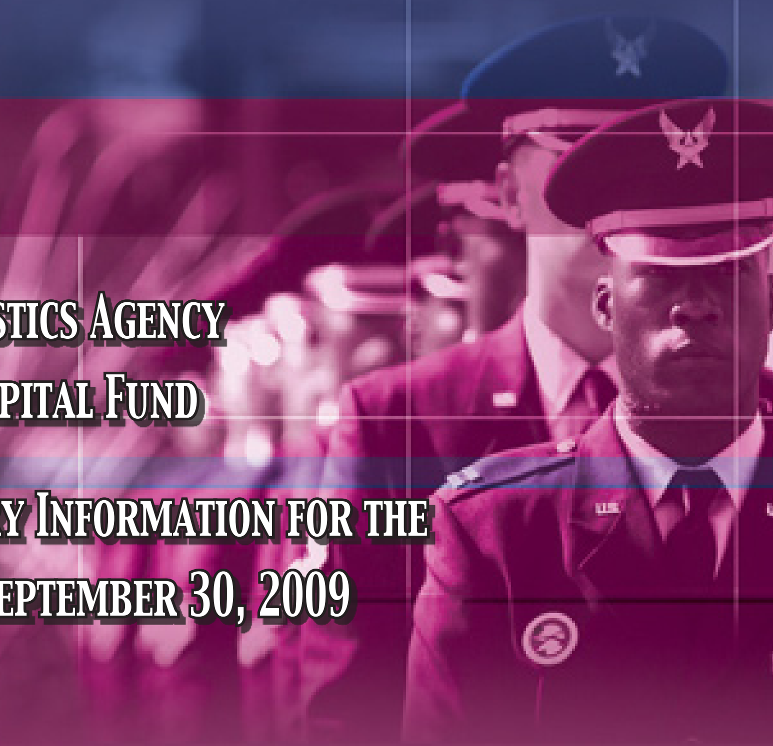
Not Applicable to DLA Working Capital Fund.

Note 25. Other Disclosures

No required disclosures.

Note 26. Restatements

Not Applicable to DLA Working Capital Fund.



Defense Logistics Agency
Working Capital Fund

Required Supplementary Information for the Fiscal Year Ended September 30, 2009

HERITAGE ASSETS

For Fiscal Year Ended September 30, 2009

Heritage Asset Categories	Measurement Quantity	As of 10/01/08	Additions	Deletions	As of 9/30/09
Buildings and Structures	Each	4			4
Archeological Sites	Each	NA			NA
Museum Collection Items (Objects, Not Including Fine Art)	Each	NA			NA
Museum Collection Items (Fine Art)	Each	NA			NA

Heritage Assets are items of historical, natural, cultural, educational, or artistic significance (e.g., aesthetic) or items with significant architectural characteristics. Heritage Assets are expected to be preserved indefinitely.

The Defense Supply Center–Richmond (DSCR) operated and maintained four distinct heritage assets during the year: the Bellwood Home, an early nineteenth century plantation house that is listed in the National Register and served as the Officer's Club; a monument to honor the Native American culture; and two cemeteries.

The fiscal year 2009 categories are defined as follows:

Buildings and Structures

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

Archeological Sites

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

Museum Collection Items

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

Real Property Deferred Maintenance

For Fiscal Year Ended September 30, 2009 (In Millions)

Property Type	Current Fiscal Year (CFY)		
Buildings, Structures, and Utilities	Plant Replacement Value	Required Work (Deferred Maintenance)	Percentage
Enduring Facilities	$ 12,822	$ 135	1.05%
Excess Facilities or Planned for Replacement	NA	NA	NA
Heritage assets	NA	NA	NA

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

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

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

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

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

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

Facility Categories are as follows:

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

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group Overview
For the Fiscal Year Ended September 30, 2009

SUPPLY MANAGEMENT ACTIVITY GROUP

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

During FY 2009, DLA supported nearly 1,600 different weapon systems and managed fuel that generated sales of 129 million barrels. By year's end, there were more than 14,400 civilian, 275 active duty military, and 209 military reserve personnel that supported this business area. The Supply Management Activity Group generated revenue which totaled about $37.8 billion during FY 2009. This was a decrease of almost $3.0 billion from the previous year.

MISSION

The Supply Management Activity Group's mission is to provide materiel and logistics services that support peacetime and combat operations, combat preparedness, emergency support, and humanitarian aid. These services include the integrated materiel management of more than 4.8 million separate line items that support the eight separate supply chains. The support requirements are dynamic, and DLA continues to adjust its approach in response to evolving changes in national priorities, requirements of the Military Services, technology, and the commercial marketplace. The primary logistics functions include:

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

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

- Procurement management, ensuring DoD gets the best value;

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

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

STRATEGIC GOALS

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

- **Strategic Materiel Sourcing (SMS):** SMS focuses on stratifying and satisfying customer driven high demand and readiness hardware items – almost 283,000 of the more than 3.8 million hardware items managed by DLA - through long-term agreements. While the targeted SMS items make up only about 7% of the DLA managed hardware items, they account for 88% of its hardware procurement actions and 87% of sales. The primary performance measurement of the SMS program is inventory savings. Since the inception of this program, DLA has realized over $335 million in one-time inventory savings and currently has more than 203,000 items under long-term agreements. These agreements include Prime Vendor Agreements, Corporate Contracts, and standard Long-Term Contracts.

- **Warstopper Program:** This program recognizes that peacetime demand for certain items is inadequate to sustain an industrial base sufficient for readiness and mobilization. Consequently, extra preparedness measures are required for those items, and that critical industrial capabilities must be preserved to support the Department's readiness and sustainment requirements. In most cases, the Warstopper Program preserves essential production capability by investing in industry responsiveness to a projected surge requirement without purchasing, storing, and managing a finished goods inventory. This concept applies to items such as chemical protective suits, nerve agent antidote auto-injectors, meals-ready-to-eat, and tray pack assemblies. The most recent return on investment (ROI) analysis for the program indicates that from 1993 through 2008 the Warstopper program has offset over $4.7 billion in War Reserve Materiel inventory purchases - a return on investment of more than 6.5:1. DLA expects a similar ROI on the $83.7 million Warstopper Program investment made in FY 2009.

- **Strategic Supplier Alliances (SSAs):** SSAs are long-term partnerships - formed with DLA's key suppliers - that allow the Agency and the supplier to work together by sharing information and jointly working problem areas. The result is added value for both parties and improved support to the warfighters. There are currently 29 SSAs and each is assigned to a Supplier Relationship Manager, whose primary responsibility is the maintenance and success of the partnership.

- **Supply Chain Alliances (SCAs):** An outgrowth of the SSA initiative, SCAs are alliances with key suppliers who provide competitive items. SCAs further the goals of the SRM transformation effort by adding value to both DLA and the supplier. To date, DLA has formed SCAs with 22 suppliers. This year the Defense Energy Support Center (DESC) stood up their first SCA continuing the growth of SCAs with non-hardware supply chains. DESC's SCA focuses on on-time delivery to the warfighter. To assist all suppliers with their operational planning, DLA provided them with a tool, the Supplier Requirements Visibility Application (SRVA), which forecasts 24 months of requirements for both competitive and sole source items. This initiative is essential in achieving the DLA objective of linking supply with demand.

- **Performance-Based Logistics (PBL):** PBLs are: 1) the preferred contract method to support weapon systems; 2) mandatory for all new major systems and for fielded Acquisition Category (ACAT) I and II systems; and 3) expected to increase support to warfighters through increased materiel availability, improved reliability, and enhanced obsolescence management. The strategy is to increase partnering with PBL Product Support Integrators (PSI) as a Product Support Provider; expand DLA capability to be the selected PSI in support of Military Services PBL initiatives; and to leverage DoD buying power through existing Strategic Supplier Alliances, Supply Chain Alliances, and other related DLA initiatives. DLA sold almost $341 million worth of materiel in FY 2009 through its 28 active PBL partnerships where the majority of those sales were obtained from commercial vendors (who were awarded Military Service PBL contracts and then utilized DLA as a source of supply for consumable items). DLA expects to fully execute eight more PBL arrangements by FY 2011.

EBS Customer Support Management (CSM): DLA uses standard Enterprise-wide automated management tools and processes to more deliberately understand warfighter needs and meet customer expectations. In March 2006, DLA began using these EBS CSM (formerly known as Customer

Relationship Management) tools and processes for account management, opportunity management, and customer outreach. In the following month, analytics and service modules were configured and deployed. EBS CSM reached full operational capability in July 2007 and approximately 5,700 DLA employees now use the system. EBS CSM system enhancements continually improve program reporting, customer outreach, account management, opportunity management, and various other service capabilities. Examples of recent and on-going improvements include:

- the deployment of a single tool, Service Management, to provide life-cycle documentation of customer issues (more than 50,000 per month);
- the automated distribution of survey requests to customers based on set business rules for each type of survey; and
- an EBS CSM technical upgrade - scheduled to roll out in January 2010 – that will provide new features and functionality (more user-friendly views and functionality; improve search parameter capabilities, program compatibility, and access/performance; and reduce contact duplication).

PROGRAM PERFORMANCE INDICATORS

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

- **Perfect Order Fulfillment (POF)** is fully deployed within the Fusion Center and is used to identify performance issues and areas for improvement within the logistics pipeline. As such, POF is the Supply Chain Operations Reference (SCOR) reliability metric; it shows the percentage of orders that are "perfect" in the eyes of the customer – the warfighter. Performance indicators aligned to POF include: timeliness (materiel and data are delivered to the correct place and on time), quantity (correct item and quantity are delivered), quality (materiel is delivered in the correct condition and packaging), and documentation (correct shipping, compliance, and payment documents support the order). The POF metric continues to be refined in order to improve data fidelity, such as adding logic to address Inventory Management and Stock Positioning (IMSP) sites, and add new drill-down features to aid in analysis efforts. For example, customer-oriented weapon system data is currently displayed, along with location-based filters. DLA's overall POF at the close of FY 2009 was more than 83.2%, above the established Management Objective of 81.7%. Timeliness was the largest challenge for POF, evidenced by the Timeliness component measured at slightly more than 84% for the close of FY 2009 (Documentation was greater than 98%, Quality was 99.9%, and Quantity was almost 98%). Action has been taken to identify the customers with poor Materiel Receipt Acknowledgement (MRA) performance—a common source of POF Timeliness failures. Following-up with these customers to encourage prompt and accurate submission of MRAs will help improve POF.

- **Attainment to Plan (ATP):** identifies the percentage of successful Purchase Requests (PR) and Stock Transport Orders (STO) (DLA-owned stock redistribution orders) generated through the supply planning process. In order to be successful, these actions must meet three criteria: quantity, quality, and timeliness. An increase in ATP demonstrates improved supply plan reliability. Improved supply plan reliability lends itself to lower safety stock levels (smaller inventory investments). ATP tracking debuted as a DLA management objective in FY 2009 with a target of improving 10 percentage points over baseline measures. All supply chains achieved improvement in ATP despite an across-the-board increase in PR/STO volume. The Agency showed 6% improvement overall (from 38% to 44%). The Clothing and Textile supply chain more than doubled the goal with a 22% increase; the Maritime and Land supply chains showed 9% and 7% improvements, respectively; and both the Aviation and Construction and Equipment supply chains achieved a 3% increase. During FY 2009, management actions designed to improve ATP included, but were not limited to: an Enterprise review of current workload prioritization (end-to-end supply chain), as well as internal site reviews regarding their particular supply chain obstacles. As a result of the experience gained in FY 2009, DLA has established workload priorities designed to ensure further ATP improvement in FY 2010.

- **Demand Planning Accuracy (DPA)** measures the degree of accuracy of a demand forecast compared to the actual demand. It is first calculated at the lowest level of detail, the Demand Forecasting Unit (DFU), comprised of a customer and an item of supply. The DFU can be rolled up to compute the DPA for the various and significantly larger customer groups (such as an Enterprise, a Demand Chain, a Customer, etc.). DPA is measured in "lags" or forecasted ahead for set periods of time: Lag 0 (Current Month), Lag 1, 2, 3, 6, 12 & 24 months. Increased demand planning accuracy should result in better customer support and lower inventory investments and holding costs. To this end, DLA is using both top down and bottom up approaches. Management objectives against which actual performance can be compared will be in place for FY 2010.

- **Absolute Percent Forecast Error (APFE)** measures the absolute value of the percent of error in the total forecast for the period and is weighted by the cost of the item. APFE is measured in lags and can be calculated at different levels; however, it is recommended for use as an aggregate measure since it provides insight into the absolute magnitude of issue. APFE is a top down evaluation as it assesses the overall goodness of the process and allows the establishment and comparison of benchmarks. DLA has established APFE Enterprise and Demand Chain management objectives for each month with the goal of being below the objective. The metric is assessed monthly by management. For FY 2009, DLA was successful in remaining below the APFE objective for 10 of the 12 months. For the remaining two months, DLA was only slightly above the objective. In FY 2009, DLA established an Enterprise-wide Demand Planning Game plan to include people, process, and culture initiatives targeted at improving forecast accuracy. During that period, DLA used the Percent Forecast Error Tool (PFE) to determine and monitor the impacts of these process improvements. For FY 2010, DLA has formed a Demand Planning Improvement Team to research business decisions and planning processes, seeking methods to continue to improve the forecasting process and ensure it maintains the highest level of customer service possible.

- **Procurement Productivity** measures the Supply Chains' response to Purchase Requests (PRs) by awarding either contracts or Purchase Orders and maintaining an acceptable level of backlog, PRs in process. It includes manual awards, automated awards, Long Term Contract (LTC) delivery orders, and cancellations, as measured against the number of PRs in process. Over the past two years the Supply Chains reduced PRs in process from 229,610 at the end of October 2007 to 204,651 by the end of September 2009.

- **Administrative Lead Time (ALT)** is the total time between receipt of a customer order or planned requirement and contract award date. ALT is evaluated by comparing the actual lead time to the historical lead time of record. The actual ALT fluctuated between 19 to 26 days during FY 2009, and as of September 2009 was 24.6 days.

- **Production Lead Time (PLT)** is the total time between the receipt of award by the vendor and the receipt of 51% of the contract quantity. PLT is evaluated by comparing actual lead time to the historical lead time of record. Actual PLT fluctuated between 41 to 50 days during FY 2009, and as of September 2009 was 44.7 days.

- **Long Term Contracts (LTCs) Administration:** LTCs are flexible vehicles that remove workload from buyers' desks and provide documented, reduced administrative and production lead times. These reduced lead times allow DLA to reduce inventory investments. The three metrics used for FY 2009 were:

  - **SMS LTC Renewals/Lapses:** Measured the timeliness of planned renewals for expiring SMS Hardware NSNs on LTC. The DLA goal was to renew 36,763 NSNs identified on expiring LTCs. DLA achieved 32,550 renewals.

  - **LTC Obligation Rate:** Measured the overall success at maintaining coverage and selecting the correct items - and in the right quantities - to be placed on LTC as a percent of total obligations made against items on LTCs during the fiscal year. Because of unplanned lapses, DLA achieved a rate of 61.4 % versus a 63.3 % goal.

  - **SMS Growth:** Measured the increase in total Annual Demand Value (ADV) and Annual Demand Frequency (ADF) of SMS items on LTC. The Enterprise FY 2009 goals were to increase the ADV baseline (increase LTC Obligations) by slightly more than $605 million and increase the ADF baseline (the manual procurement workload avoided by placing items on LTC) by more than 1.4 million requisitions. The enterprise increased the ADV by $361 million and 1.427 million ADF through September 2009.

FINANCIAL PERFORMANCE MEASURES

DLA establishes its prices predicated on three primary factors: 1) its current financial position, as determined by the Accumulated Operating Result (AOR); 2) its projected cash position relative to the stated objective; and 3) the estimated expenses that will be incurred to generate the estimated revenue. It is Agency policy to set prices that achieve an AOR of zero over the long-term and maintain cash balances that preclude an Anti-Deficiency Act violation. In addition, not all costs attributed to the business are recovered by the business - imputed costs, depreciation expenses applied to investments funded from General Fund accounts, and the recording of revenue that is for non-expense items (peacetime inventory augmentation, mobilization inventories, and adjustments to the cash position). The Financial Results section below more fully describes DLA achievement during FY 2009.

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 supply chain:

Unit Cost Results	FY 09 Goal	FY 09 Actual
Cost per Barrel of Fuel	$83.19	$91.66

The total cost per barrel of fuel is comprised of the composite product cost (the acquisition cost of a barrel of petroleum product sold) and the non-product cost (operations costs for fuel services, transportation, storage, and overhead). Actual unit cost exceeded goal by $8.47. This variance was driven primarily by increased composite product cost.

The following table depicts the Supply Management unit cost result for the Non-Energy supply chains:

Unit Cost Results	FY 09 Goal	FY 09 Actual
Non-Energy	$1.01	$1.01

The Non-Energy unit cost was $1.01, which met the goal established for FY 2009. In this case, a unit cost that is greater than $1.00 reflects DLA's effort to support the warfighter by improving the availability of inventory.

DLA also measured and monitored financial performance of its Non-Energy business segment by comparing the Cost Recovery Rate (CRR) approved in the budget to that which was executed. The CRR is a composite rate that is calculated by dividing its related operating costs by the cost of goods sold; and is used as an aggregate measurement of the costs that DLA incurred to generate a level of sales. The long-term financial goal is to achieve a break-even budget-related accumulated operating result. DLA's composite FY 2009 CRR goal was 14.0%. The actual CRR was 11.9%, which was 2.1% lower than the FY 2009 President's Budget and is attributed to greater than expected Net Sales at the during the fiscal year and continued efforts to reduce operating costs.

FINANCIAL RESULTS

The Supply Management Net Cost of Operations, which includes costs (military construction depreciation, imputed expenses, and accounting adjustments) not recovered by the Defense-wide Working Capital Fund, reflects a loss of slightly more than $4.8 billion. The decrease is primarily attributable to the Energy business segment where both sales price and sales quantity decreased.

Defense Logistics Agency
Working Capital Fund

Supply Management Activity Group

Consolidated and Combined Financial Statements
As of and for the Years Ended September 30, 2009 and 2008

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Supply Management

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 1,028,312	$ 566,195
Other Assets (Note 6)	125,009	124,980
Total Intragovernmental Assets	1,153,321	691,175
Cash and Other Monetary Assets (Note 7)	40	-
Accounts Receivable, net (Note 5)	365,905	775,620
Inventory and Related Property, net (Note 9)	17,337,620	21,614,472
General Property, Plant and Equipment, net (Note 10)	1,418,817	1,241,016
Other Assets (Note 6)	23,182	24,124
TOTAL ASSETS	20,298,885	24,346,407
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	24,955	(13,081)
Other Liabilities (Note 15 & Note 16)	23,892	22,002
Total Intragovernmental Liabilities	48,847	8,921
Accounts Payable (Note 12)	3,079,346	2,926,476
Military Retirement and Other Federal Employment Benefits (Note 17)	34,799	36,737
Environmental and Disposal Liabilities (Note 14)	76,347	91,494
Other Liabilities (Note 15 & Note 16)	186,977	151,240
TOTAL LIABILITIES	3,426,316	3,214,868
NET POSITION		
Cumulative Results of Operations - Other Funds	16,872,569	21,131,539
TOTAL NET POSITION	16,872,569	21,131,539
TOTAL LIABILITIES AND NET POSITION	$ 20,298,885	$ 24,346,407

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Supply Management

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

		2009		2008
PROGRAM COSTS				
Gross Costs	$	42,536,654	$	38,521,641
Less: Earned Revenue		(37,715,749)		(40,688,814)
Net Program Costs		4,820,905		(2,167,173)
NET COST OF OPERATIONS	$	4,820,905	$	(2,167,173)

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Supply Management

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 21,131,539	$ 17,441,731
Beginning Balances, as adjusted		
Budgetary Financing Sources:		
Appropriations used	355,319	300,930
Transfers-in/out without reimbursement (+/-)	-	(70,000)
Other Financing Sources:		
Donations and forfeitures of property	-	-
Transfers-in/out without reimbursement (+/-)	101,010	1,208,624
Imputed financing from costs absorbed by others	105,605	83,082
Total Financing Sources	561,935	1,522,636
Net Cost of Operations (+/-)	4,820,905	(2,167,173)
Net Change	(4,258,970)	3,689,808
Cumulative Results of Operations	16,872,569	21,131,539
UNEXPENDED APROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	355,319	324,700
Appropriations transferred-in/out (+/-)	-	-
Other adjustments (rescissions, etc.) (+/-)	-	(23,770)
Appropriations used	(355,319)	(300,930)
Ending Balances	-	-
NET POSITION	$ 16,872,569	$ 21,131,539

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Supply Management

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Recoveries of prior year unpaid obligations	$ 2,380,395	$ 1,295,464
Budget Authority		
Appropriation	355,319	324,700
Contract authority	36,754,660	45,853,147
Spending authority from offsetting collections:		
Earned		
Collected	36,332,254	39,484,244
Change in receivables from Federal sources	(40,446)	83,882
Change in unfilled customer orders		
Advance received	(18,025)	6,039
Without advance from Federal sources	31,189	700,733
Subtotal	73,414,951	86,452,745
Nonexpenditure transfer, net, anticipated and actual	-	(70,000)
Permanently not available	(39,040,686)	(41,825,063)
Total Budgetary Resources	36,754,660	45,853,146
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	36,754,660	45,853,147
Unobligated balance not available	-	(1)
Total Status of Budgetary Resources	36,754,660	45,853,146
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	20,195,884	16,141,354
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(7,794,523)	(7,009,909)
Total unpaid obligated balance, net	12,401,361	9,131,445
Obligations incurred, net	36,754,660	(45,853,147)
Less: Gross outlays	(36,154,307)	(40,503,152)
Less: Recoveries of prior year unpaid obligations, actual	(2,380,395)	(1,295,464)
Change in uncollected customer payments from Federal sources (+/-)	9,256	(784,614)
Obligated balance, net end of period		
Unpaid obligations	18,415,842	20,195,884
Less: Uncollected customer payments from Federal sources (+/-)	(7,785,267)	(7,794,523)
Total unpaid obligated balance, net, end of period	10,630,575	12,401,361
Net Outlays:		
Gross outlays	36,154,307	40,503,152
Less: Offsetting collections	(36,314,228)	(39,490,282)
Net Outlays	$ (159,921)	$ 1,012,870

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
Working Capital Fund

Distribution Activity Group Overview
For the Fiscal Year Ended September 30, 2009

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DISTRIBUTION ACTIVITY GROUP

The Distribution Activity Group operates through the Defense Distribution Center (DDC) in New Cumberland, PA, and 25 subordinate distribution centers located throughout the United States, Europe, Pacific, and Southwest Asia. The group's mission is to manage the receipt, storage, and issuance of DoD materiel. It delivers that materiel to customers collocated on a base or to far-off ships, posts, and repair facilities. The activity group uses contracts with commercial sources to transport items from DLA-owned warehouses directly to customers worldwide. Some distribution centers are highly automated facilities that were specifically designed to provide global support for general commodities; while others fill customer requirements on a regional basis or may provide global support for materiel that requires special equipment, facilities, or training. For example, one distribution center - with eleven subordinate satellite operations - provides global support for all map distribution requirements. The distribution centers maintain the accountable inventory records and are responsible for preserving over $98 billion (at selling price) in DoD materiel, representing over 3.4 million items. In addition, they processed $21.8 million receipt and issue transactions during FY 2009 and their business services generated more than $1.2 billion in revenue. By year's end this activity group employed almost 86,000 civilian, 130 active duty, and 183 reserve military personnel.

MISSION

The mission of the Distribution Activity Group is to provide the full range of distribution services and information enabling a seamless, tailored worldwide DoD distribution network that delivers effective, efficient and innovative support to the Combatant Commands, the Military Services and other Agencies during peace and war. The distribution network ensures that America's Warfighters receive competitively priced and best value distribution services by providing "around the clock - around the world," world-class service. The Distribution Activity Group is also responsible for the DLA transportation management functions which support all shipments to first and second destination points.

STRATEGIC GOALS

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

- Increase our reliability and value coupled with a faster response time to our customers by continuously improving and reengineering business practices;
- Provide best-value solutions to our customers by continuously evaluating our activities and implementing changes, as necessary, to ensure efficient and effective distribution operations; and
- Reduce under-utilized infrastructure by eliminating unnecessary storage capacity.

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Infrastructure Cost Reduction through A-76 Cost Comparisons: In FY 1998, DDC began the process of competing DLA depots with private industry. The goal of these competitions is to reduce operating costs either by reengineering existing depot business processes or by inserting the market forces of competition into the distribution functions. As of the end of FY 2009 fifteen competitions have been completed, with the government retaining depot and installation support operations at seven sites, while the other eight were contracted with private industry. The estimated long-term (FY 1998 - FY 2015) net savings from these 15 competitions is $714.5 million.

Theater Consolidation and Shipping Points (TCSP) - Kuwait, Europe, and Korea: DLA operates three TCSPs that are the primary conduits for sustaining in-theater operations by rapidly consolidating or segregating shipments from multiple sources and then preparing and forwarding those shipments directly to the customer. The key features of the TCSPs include the capability to maintain visibility of the transportation control numbers and asset control. Collectively, these features allow for the movement of palletized materiel directly from the receiving dock to the shipping dock; where the ability to "cross-dock" eliminates the need for any storage or staging and facilitates an efficient transition from inbound to outbound operations. These efforts provide both effective and efficient support to the warfighters throughout Europe, Africa, Korea, and the Middle East. Thus far, this mission has reduced cost by 20% with a 40% reduction in redundant hub and spoke distribution systems. Based on the operational successes achieved by the TCSPs, a fourth TCSP is planned for Sigonella (Rota), Spain. The expansion of the TCSP services in Rota will further extend the enterprise and deliver supply chain excellence by providing real time capability to enhance warfighter support. This expansion also postures the Sigonella Distribution Center to execute the mission as requirements emerge in U. S. Africa Command (USAFRICOM).

Foreign Disaster Support: Working with the Combatant Commanders' planning staffs, the development of a fully deployable Outside Continental United States (OCONUS) strategic distribution capability has been achieved and an initial operational capability is in place. This capability provides a) wholesale distribution depot support during contingency operations, b) wholesale support services and in-theater distribution expertise, and c) materiel visibility in a manner similar to existing fixed based forward stocking locations. Conceptually, this provides a combination of functions and capabilities of both a Theater Consolidation and Shipping Point and a fixed base forward stocking site to meet contingency needs and priorities. Those needs and priorities include wholesale support services, as well as materiel visibility.

Defense Transportation Coordination Initiative (DTCI): DTCI is a CONUS freight initiative that provides for a full range of transportation management services to include arranging, coordinating, monitoring and controlling DoD freight shipments from shipment receipt through delivery. As such, the DLA FY 2009 cost avoidance attributed to DTCI is more than $37 million (a decrease of over 25% from the baseline). FY 2009 Program Performance: On-Time Pick-up – 98.4%; On-Time Delivery – 92.8%; Free from Loss or Damage – 99.9%; and Loss or Damage Claims Processing – 93.5 days.

PROGRAM PERFORMANCE INDICATORS

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

The FY 2009 goals for inventory accuracy were: 99% for items in the high dollar strata (Category A) and 95% for the remaining three strata.

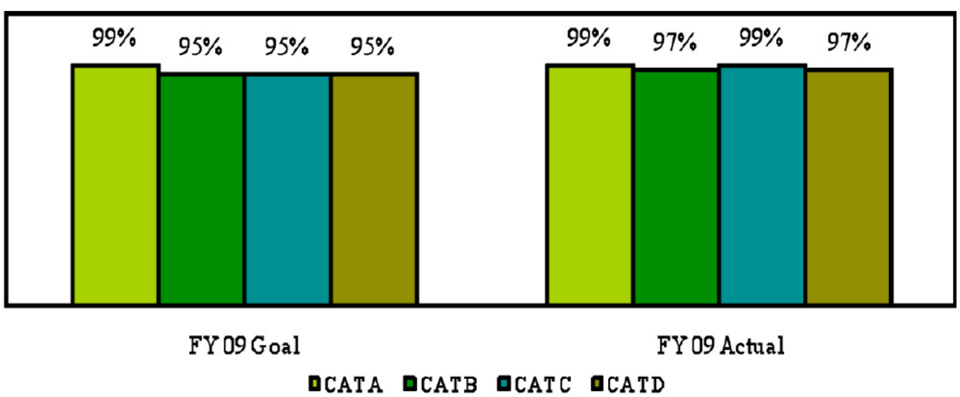
Category A: Unit Price > $1,000

Category B: Unit of Issue Not Equal to Each **OR** On-Hand Balance > 50 **AND**
Extended Dollar Value < $50,000 **OR** Activity > 50 per year

Category C: On-Hand Balance < 50 **AND** Date of Last Inventory > 24 Months

Category D: All Others

INVENTORY ACCURACY: % Accuracy of Inventory Records



The FY 2009 performance sample inventory shows that the goals were met or exceeded in all inventory accuracy categories. In FY 2009 DDC continued an aggressive schedule for the conduct of sample inventories for all categories of materiel at each of its Distribution Centers. DDC is also providing continuous training in the related distribution responsibilities and processes, as well.

Maintaining Process Performance: Increased inspections to verify accurate documentation and materiel marking and preclude incidents of incorrect shipping (specifically sensitive, classified or items going outside the DoD network) were instituted in April 2008. As a result, the processing of High Priority Requisitions, New Procurement Receipts and Customer Returns each fell below the standard. To mitigate process performance streamlined standard operating procedures (SOPs) were developed and implemented in FY 2009. The DDC continuously monitors the impact of these inspections requirements and will take steps to improve performance as opportunities present themselves.

Performance Indicators	FY 09 Goal	FY 09 Actual
High Priority Requisitions (Shipped in)	1 Day	1.0 Days
Routine Requisitions (Shipped in)	3 Days	2.1 Days
New Procurement Receipts (Stored in)	1 Day	1.3 Days
Customer Returns (Stored in)	3 Days	6.0 Days
Denial Rate (Ordered Materiel Unavailable)	0.05%	.49%
Location Accuracy (Materiel locations verified)	99.5%	99.7%

FINANCIAL PERFORMANCE MEASURES

We measure the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the distribution unit cost results for processing and storage cost rates.

Unit Cost Results	FY 09 Goal	FY 09 Actual
Unit Cost-Total Composite Processing Rate	$26.25	$26.62
Unit Cost-Covered Storage	$3.57	$3.06

The Unit Cost-Total Composite Processing Rate measures processing costs (direct, indirect, and applied overhead) relative to the number of line items (receipts and issues) processed.

The Unit Cost-Covered Storage measures the costs (direct, indirect, and applied overhead) to provide covered storage to the cubic footage used.

The actual Unit Cost-Total Composite Processing Rate was greater than the goal by $0.37. The factors that had the greatest impact on performance were: almost one million fewer lines were processed than originally estimated (21.8 million lines), while actual processing costs (without Second Destination Transportation) were $817.4 million which was $55.6 million less than planned.

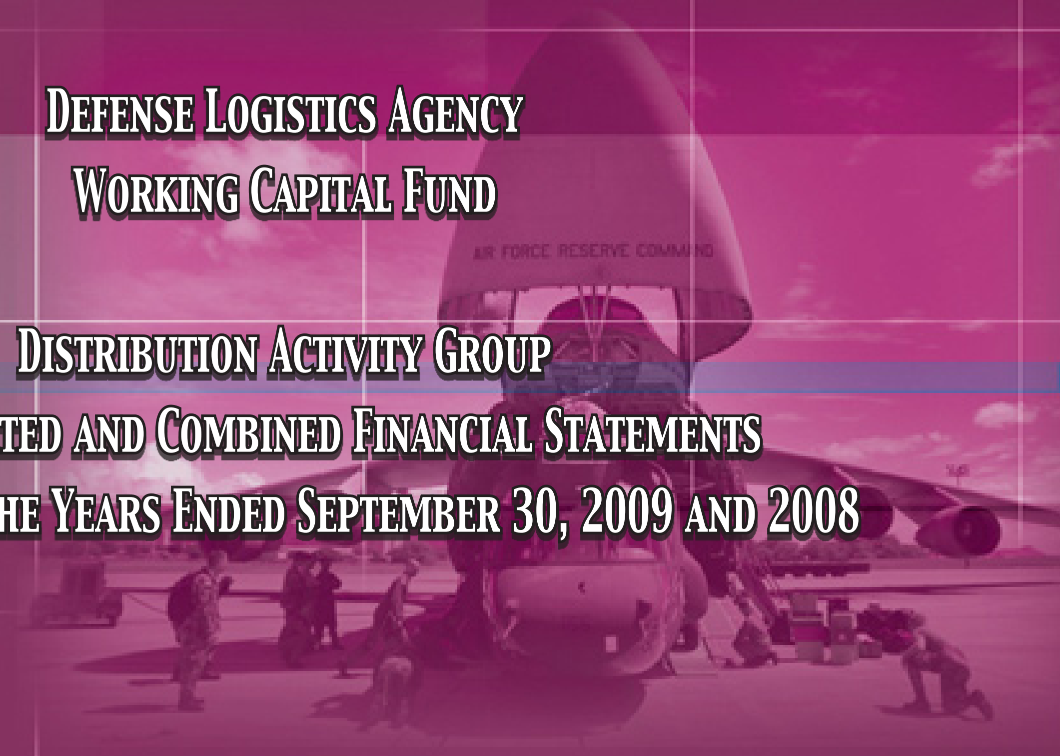
The actual covered storage unit cost was $0.51 less than the goal. This was achieved by holding costs down (actual costs were about $0.2 million less than the approximately $217 million that was budgeted); while the actual covered storage workload (70.8 million cubic feet) exceeded the original estimate by 10.0 million cubic feet.

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of revenues over expenses of more than $350 million.

Defense Logistics Agency
Working Capital Fund

Distribution Activity Group
Consolidated and Combined Financial Statements
As of and for the Years Ended September 30, 2009 and 2008



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Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Distribution

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 80,891	$ 57,837
Total Intragovernmental Assets	80,891	57,837
Accounts Receivable, Net (Note 5)	739	1,301
General Property, Plant, and Equipment, Net (Note 10)	503,330	572,072
Other Assets (Note 6)	124	358
TOTAL ASSETS	585,084	631,568
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	49,020	114,520
Other Liabilities (Notes 15 & 16)	20,572	23,749
Total Intragovernmental Liabilities	69,592	138,269
Accounts Payable (Note 12)	4,485	46,430
Military Retirement and Other Federal Employment Benefits (Note 17)	173,360	172,685
Other Liabilities (Notes 15 & 16)	32,765	46,921
TOTAL LIABILITIES	280,202	404,305
NET POSITION		
Cumulative Results of Operations – Other Funds	304,882	227,263
TOTAL NET POSITION	304,882	227,263
TOTAL LIABILITIES AND NET POSITION	$ 585,084	$ 631,568

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Distribution

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

	2009	2008
PROGRAM COSTS		
Gross Costs	$ 887,254	$ 1,772,898
Less: Earned Revenue	(1,243,836)	(1,428,607)
Net Program Costs	(356,582)	344,291
NET COST OF OPERATIONS	$ (356,582)	$ 344,291

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Distribution

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 227,263	$ 289,513
Budgetary Financing Sources:		
Appropriations used	33,600	11,980
Transfers-in/out without reimbursement	-	-
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(352,358)	225,340
Imputed financing from costs absorbed by others	39,795	44,722
Total Financing Sources	(278,963)	282,042
Net Cost of Operations (+/-)	(356,582)	344,292
Net Change	77,619	(62,250)
Cumulative Results of Operations	304,882	227,263
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	33,600	13,000
Other adjustments (rescissions, etc.) (+/-)	-	(1,020)
Appropriations used	(33,600)	(11,980)
Ending Balances	-	-
NET POSITION	$ 304,882	$ 227,263

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Distribution

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Budget authority		
Appropriation	$ 33,600	$ 13,000
Contract authority	663,793	1,636,655
Spending authority from offsetting collections:		
Earned		
Collected	1,220,240	1,419,695
Change in receivables from Federal sources	22,488	7,057
Change in unfilled customer orders		
Without advance from Federal sources	(28,939)	12,107
Subtotal	1,911,182	3,088,514
Nonexpenditure transfers, net, anticipated and actual	-	-
Permanently not available	(1,247,389)	(1,451,859)
Total Budgetary Resources	$ 663,793	$ 1,636,655

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Distribution

Combined Statements of Budgetary Resources (Continued)
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 663,793	$ 1,636,655
Total Status of Budgetary Resources	663,793	1,636,655
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	526,456	546,986
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(149,400)	(130,235)
Total unpaid obligated balance, net	377,056	416,751
Obligations incurred, net	663,793	1,636,655
Less: Gross outlays	(964,630)	(1,657,186)
Change in uncollected customer payments from Federal sources (+/-)	6,451	(19,164)
Obligated balance, net, end of period		
Unpaid obligations	225,619	526,457
Less: Uncollected customer payments from Federal sources (+/-)	(142,949)	(149,400)
Total unpaid obligated balance, net, end of period	82,670	377,057
Net Outlays:		
Gross outlays	964,630	1,657,186
Less: Offsetting collections	(1,220,240)	(1,419,696)
Net Outlays	$ (255,610)	$ 237,490

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
Working Capital Fund

Defense Reutilization and Marketing Activity Group Overview
For the Fiscal Year Ended September 30, 2009

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DEFENSE REUTILIZATION AND MARKETING ACTIVITY GROUP

The Defense Reutilization and Marketing Activity Group operates through the Defense Reutilization and Marketing Service (DRMS), headquartered in Battle Creek, MI, and 111 Defense Reutilization and Marketing Offices (DRMOs), five Centralized Demilitarization (Demil) Centers, and six Controlled Property Centers located on military installations throughout the world. The group's mission is to coordinate the reuse and disposal of excess and surplus DoD property. DRMOs receive, classify, segregate, demilitarize, account for, and dispose of excess materiel in accordance with all applicable laws and regulations. The reutilization of excess materiel by DoD customers reduces their need to purchase new materiel. In FY 2009, materiel with an acquisition value of $30.4 billion was turned in to DRMS, and $1.9 billion was reutilized within DoD. DRMS also oversees the demilitarization and disposal of the remaining property through transfers, donations, and sales, or its ultimate disposal - as in the case with hazardous waste. The business services provided by this activity group generated revenues of approximately $274 million in FY 2009. By year's end, this activity group employed 1,480 civilian, 11 active duty, and 227 reserve military personnel.

MISSION

DRMS supports the warfighter and protects the public through the receipt, reutilization, demilitarization, and compliant disposal of excess property worldwide. To do this, DRMS manages the reutilization, transfer, donation, or sale of DoD personal property, as well as the disposal of hazardous waste items no longer needed for national defense. Due to the type of materiel that passes through the disposal system, DRMS also safeguards national security in a cost efficient and operationally effective manner, a conserves valuable natural resources, and protects the environment.

STRATEGIC GOALS

The long-term goals established by the Reutilization and Marketing Activity Group 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 efficient, effective, and best-value operational support.

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

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

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

- Updated systems to allow DLA activities to automatically match DRMS excess property assets against DLA inventory retention levels;

- Provided electronic notifications to past customers of available property;

- Featured scrolling photographs of high dollar and/or unique good condition items on the DRMS R/T/D website; and

- Worked with training ranges so that the Military Services could reutilize property for live fire training.

This resulted in an increase of 40% in the number of line items of excess property reutilized/recouped from FY 2008 to FY 2009. Overall the monthly average reutilization for the best quality property increased from an average of 4,911 lines in FY 2008 to 6,854 lines in FY 2009.

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

- **Controlled Property Centers (CPCs):** DRMS operated five CPCs; four are in the United States, one in Europe, and a sixth center is being established in the Pacific Region. Because all batch lot and Local Stock Number properties are sent to a CPC to verify the properties' availability for release for sale, these CPCs provide better accountability for the items entering the DRMS disposal accounting system. The CPCs received 6,467 batch lots in FY 2009; 6,762 batch lots were verified for proper content; 699,330 lines were inspected; and 204,077 lines of property were determined inappropriate for release, resulting in the removal of 2,338,977 pieces of property for sale to the public.

- **Controlled Property Verification Office (CPVO):** The CPVO is responsible for reviewing DRMS property (before it is either released to transfer and donation customers or it enters the sales cycle) with the objective of preventing government-sensitive or controlled property from being released to the public. These reviews include property earmarked for the Commercial Venture (CV) business sales partner as well as the Pacific and Europe sales programs. Part of the process includes conducting an automated system pre-sale review of property that is received by the CV, and will be posted on the CV's web-site for sale to the public. This pre-sale review is effectively a 5-day quarantine period to determine whether controlled property will be offered for sale. Historically, problematic sales are also periodically reviewed manually as part of an on-going quality assurance process. To further mitigate potential unauthorized releases, the CPVO performs special reviews (as requested by DLA, DRMS Command, the Public Affairs Office and for various special programs) and conducts special projects as required. Taken as a whole, the processes implemented by the CPVO resulted in the review of 1.4 million line items and the removal of over 65,000 line items during FY 2009. The CPVO is also responsible for analyzing the accuracy of the demilitarization (DEMIL) code assigned to each National Stock Number (NSN) in the federal inventory, which results in a substantial improvement to the unauthorized release of property and the overall security of the United States. From this analysis, the CPVO challenged the DEMIL code on approximately 26,000 unique NSNs (or 5.5% of all NSNs reviewed during FY 2009) and 97% of those challenges resulted in a more stringent DEMIL code.

- **Long Term Storage (LTS) Facility:** In January 2009, DRMS established a LTS facility at the Defense Supply Center Columbus (OH) to retain serviceable DEMIL Code B Munitions List Items and DEMIL Code Q Commerce Control List Items. Because these items were determined to be sensitive for reasons of national security, they are no longer eligible for transfer, donation, or sale. The LTS facility is comprised of two buildings (one for high density storage and the other for bulk storage) consisting of over 21,000 pallet positions. Each of these buildings is currently being utilized at approximately 53% of capacity with more than 72,000 total line items. The DoD has reutilized almost 900 line items with an acquisition value of $10.2 million.

- **Scrap Venture (SV):** The SV contract obligates the contractor to physically witness, attest to the mutilation process, and complete certificates of destruction for general scrap requiring mutilation; the contactor mutilated 336 million pounds of scrap during FY 2009. The SV contract also obligates DRMS personnel to conduct random physical inspections of the mutilation process. The inspections conducted to date verify that the contractor performed in accordance with the contract requirements. DRMS also created a central location in Bicknell, IN where controlled items (e.g., Flight Safety and Critical Aircraft Parts, and Critical Safety Items) are sent to be mutilated. The execution of this contract and the related management controls reduce the risk that controlled property will be made available to the public.

- **Usable Property Sales Term Contract:** DRMS continued executing the 3-year usable property sales term contract that was awarded in July 2008. The contract requires the contractor to use a two-fold payment process (both payments are based on a percentage of the acquisition value of the property issued) to reimburse DRMS for the property. For the purpose of national security, the contract includes property assurance requirements whereby DRMS could financially penalize the contractor should a controlled item be released for sale. Based on the contract, DRMS also is authorized to reclaim certain property from the contractor when a reutilization, transfer, or donation mission essential need is determined. Since DRMS is an approved General Services Administration (GSA) Sales Center, all usable property that is offered for sale in the U.S. must be posted on the eFAS/GovSales.gov portal. Because of this requirement, a link to the contractor's website is posted on the portal, and the contractor provides quarterly asset tracking reports to DRMS. The FY 2009 projection for revenue generated by usable property sales was $22.6 million; the actual revenue from those sales was $31 million, reflecting a $8.4 million increase.

Safeguarding Excess/Surplus Property: The list of security-related facility projects continues to grow in both visibility and numbers. Each fiscal year DRMS prioritizes and funds multiple projects; for FY 2009 DRMS invested approximately $6.4 million in non-Controlled Property Centers (non-CPC) and about $120,000 in CPC-related security-related facilities projects. There are 19 additional projects, costing more than $2.6 million, identified for funding by FY 2014. In addition to the investment in facilities, significant changes were also implemented DRMS-wide to tighten the walk-in procedures for property removal. Consequently, DRMS ensures that authorization letters and potential screeners are independently verified before property is released and conducts weekly site inspections of contractor facilities where security risks exist.

Continuous Process Improvement (CPI): DRMS realigned the Continuous Process Improvement office with the Compliance Office to enhance the potential of utilizing CPI techniques to mitigate risk. In addition, CPI is being institutionalized at DRMS by creating a cadre of employees trained in CPI methodologies and techniques. Six training classes were provided to expeditiously train the workforce in CPI and 10 black belts and 94 green belts received training by the end of FY 2009. Consequently, DRMS completed - or is in the process of completing - 62 CPI events. DRMS also accomplished a Lean event at 15 of its hub sites, whereby the receipt process of each hub site was thoroughly analyzed. These analyses resulted in management actions that eliminated non-value added steps, which reduced the use of overtime and travel support and increased employee productivity. The Continuous Process Improvement office will continue to promote institutionalizing CPI into the DRMS culture so that every employee incorporates the identification of waste, reduction of variation, and identification of process constraints into their daily work routine.

Targeted Program Oversight: This is an effort to assess the effectiveness and compliance of operations and assist DRMS in achieving its strategic goals. Areas targeted for oversight are periodically updated to reflect both risk and relevancy, such as the implementation of revised or new processes. As part of the oversight program, all DRMS field activities performed quarterly self-assessments focusing on receiving, warehousing, demilitarization, RTD, sales, scrap, safety/security, and environmental processes. In addition, the DRMS headquarters conducted 26 Operational Effectiveness Reviews, six Environmental Effectiveness Reviews and 12 Environmental Management System audits in FY 2009, which included the effectiveness review of DRMO Arifjan.

Military Service Customer Training: The two-day course - providing the Military Services with a basic knowledge of the DLA/DRMS mission - continues to be a major success and requests for the formal training continue to arrive from all four Military Services. For FY 2009, five classes were taught to 84 Military Service members. In addition, DRMS is increasingly involved in the training process by providing blocks of instruction to imbed in Military Service courses at the Army Logistics University (ALU), the Army Quartermaster School, the Navy Supply Corps School, and the Air Force Institute of Technology. There is also an on-going joint effort with the ALU to place a disposal mission course on-line to further expand military education about DRMS. ALU is responsible for converting the course to an on-line platform, providing on-line access, and monitoring the course; while DRMS is responsible for writing and updating the course content with any changes to policy and/or procedures, and testing the course accessibility and display of content. Once DRMS confirms the adequacy of the content, one person from each region will test the course in early FY 2010. After successfully testing the on-line training, both DRMS and ALU plan to market the course to solicit interest from the Military Services. Since this course will be Army Knowledge Online (AKO) linked, ALU will register DRMS students; give them access to AKO; and send the link to the class so that training can be completed.

Contingency Operations Support: There are six fully functional DRMOs located in the Central Command (CENTCOM) Area of Responsibility (AOR) and staffed with emergency essential personnel and military reservists. These DRMOs receive and process excess and surplus usable property for reutilization, donation, or sale; perform and oversee demilitarization of military equipment items and the disposal of scrap; as well as, dispose hazardous material/waste in an environmentally safe manner. As a vital part of supply chain management, DRMS has and will continue to expand disposal services throughout the AOR to meet the needs and demands of its customer, the warfighter. The redistribution and disposal of property are viewed as critical aspects of a responsible drawdown of military operations in Iraq and the support required by a ramp-up of military operations in Afghanistan. During the course of the year, DRMS expanded their capabilities to support the disposal needs and removal of 56 million pounds of scrap from 52 Forward Operating Bases in Iraq and Afghanistan. Collectively, DRMS operations in the CENTCOM AOR yielded significant workload during FY 2009: Scrap receipts totaled 247.7 million pounds; scrap removals totaled 227.6 million pounds; and the warfighter reutilized more than 621 thousand pieces of property. In keeping with their mission to safeguard national security, DRMS demilitarized 75,194 items no longer needed for national defense.

Disposal Remediation Teams (DRTs): The DRTs, comprised of DLA joint reserve personnel, were instrumental in meeting the customer requirements in a very fluid operational environment. In FY 2009, DRMS deployed 65 Navy, Army, and Air Force reservists to DRT locations spread throughout three countries: Iraq, Afghanistan, and Kuwait. These members served as Disposal Service Representatives and operated in an expeditionary manner by going to Forward Operating Bases to support the customer in their environment and location. The DRTs successfully: 1) laid the foundation for future DRT joint reserve force operations in the Central Command area of operational responsibility, 2) extended the DLA enterprise to the outermost tip of the spear, and 3) connected and integrated DRMS' disposal operations with the customer to allow for responsive expedient support.

Enhanced DRMS Intern Program: Faced with an aging workforce, DRMS utilizes an Intern

Training Program to ensure that the knowledge base is transferred to a trained employee prior to an individual's retirement. The program includes completion of mandatory formal training courses, on-the-job training, cross training, and rotational training within a 2-year period. In the past four years, DRMS has added 35 DLA Interns to its Property Disposal, Environmental, and Contracting tracks (six in 2006, six in 2007, sixteen in 2008 and seven in 2009). An additional 10 interns are due to arrive in the coming months. Additionally, individuals who began their internships in 2009 were specifically recruited to fill Emergency Essential property disposal and environmental positions upon completion of the program. All new interns receive their first year of training at DRMS headquarters in Battle Creek, MI. Their second/final year of training will be at their permanent placement location. Upon completion of the program, they will remain in place as DRMS employees.

PROGRAM PERFORMANCE INDICATOR

Reutilization/Transfer/Donation (R/T/D) rate: This indicator represents the aggregate number of line items of the property reutilized, transferred, and donated expressed as a percentage of the total line items disposed. The indicator applies to the available assets that are economically reused. It addresses disposal via reutilization by another defense customer, transfer to another Federal Agency, or donation to an eligible state or local government or to a non-profit organization. R/T/D dispositions, as a percentage of total dispositions, indicate support provided to DoD, Federal government, and state and local agencies. Customer utilization of these programs increases troop readiness, avoids new procurement costs, and provides needed items to agencies at no cost. In FY 2009, DRMS successfully reutilized, transferred, or donated over 191,000 line items of excess property for an R/T/D rate of about 11.7%.

- Operations Enduring Freedom and Iraqi Freedom Reutilization: Total reutilization supporting these two contingencies surpassed 28,000 line items with a value of $183 million. Examples of the types of items issued in support of these operations include vehicles, tanks, trucks, and body armor.

- Computers for Learning: DRMS is responsible for overseeing the transfer of computers to schools in support of the DoD's Computers for Learning Program. In FY 2009, 3,798 schools participated in the program, and computers worth over $21 million in acquisition value were transferred.

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

- Marketing high dollar, good condition items through scrolling photographs on the R/T/D website. In FY 2009, DRMS received 472 requisitions for property with an original acquisition value of $24.6 million.

- Pushing (to past customers) inventory alerts of the availability of same/similar items that they previously purchased. In FY 2009, DRMS received over 3,200 requisitions for property with an original acquisition value of $44.9 million.

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

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

FINANCIAL PERFORMANCE MEASURES

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

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

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

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

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

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

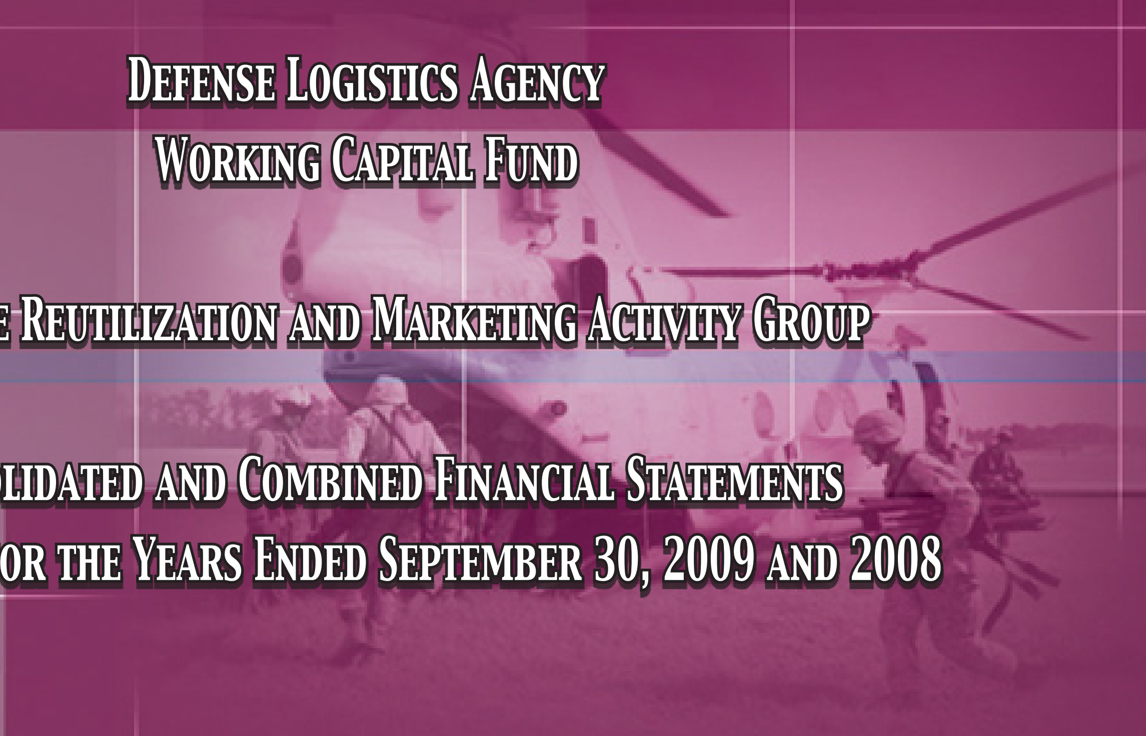
Financial Performance Measures	FY 09 Goal	FY 09 Actual
Cost per line item	$53.31	$35.10
Cost per pound	$.08	$.08

The reduction, $18.21, to the Cost per line item unit cost was driven by dramatic workload increases that were accommodated without a cost increase. The Military Services and the Defense Distribution Center (DDC) generated 1.6 million more line items than the 3.6 million that was expected. This additional workload was primarily related to inactive inventory from the Military Services and DDC. By coordinating its efforts with the DDC, DRMS was able to accommodate the workload increase; decrease its costs; and achieve dramatic economies of scale that are reflected in the actual unit cost.

DRMS stored or disposed of 1.9 billion pounds of scrap and hazardous waste. While DRMS met the Cost per pound unit cost goal, it is worth noting that the actual workload exceeded the expected workload by more than 300 million pounds. The increase was attributed to the increase in scrap disposal in the Iraq Theater which constituted approximately 15% of all DRMS scrap disposal generated in the Central Command (CENTCOM) Area of Responsibility (AOR).

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of expenses over revenue of approximately $3.3 million.



Defense Logistics Agency
Working Capital Fund

Defense Reutilization and Marketing Activity Group

Consolidated and Combined Financial Statements
As of and for the Years Ended September 30, 2009 and 2008

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Reutilization & Marketing

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 16	$ 764
Total Intragovernmental Assets	16	764
Cash and Other Monetary Assets (Note 7)	9,970	9,775
Accounts Receivable, Net (Note 5)	3,231	3,849
General Property, Plant, and Equipment, Net (Note 10)	61,051	64,976
Other Assets (Note 6)	95	338
TOTAL ASSETS	74,363	79,702
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	9,661	9,957
Other Liabilities (Notes 15 & 16)	6,452	21,248
Total Intragovernmental Liabilities	16,113	31,205
Accounts Payable (Note 12)	26,304	32,301
Military Retirement and Other Federal Employment Benefits (Note 17)	14,841	17,222
Other Liabilities (Notes 15 & 16)	20,360	23,056
TOTAL LIABILITIES	77,618	103,784
NET POSITION		
Cumulative Results of Operations – Other Funds	(3,255)	(24,082)
TOTAL NET POSITION	(3,255)	(24,082)
TOTAL LIABILITIES AND NET POSITION	$ 74,363	$ 79,702

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Reutilization & Marketing

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

	2009	2008
PROGRAM COSTS		
Gross Costs	$ 277,038	$ 380,037
Less: Earned Revenue	(273,730)	(312,522)
Net Program Costs	3,308	67,515
NET COST OF OPERATIONS	$ 3,308	$ 67,515

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Reutilization & Marketing

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ (24,082)	$ (31,618)
Budgetary Financing Sources:		
Appropriations used	34,416	4,861
Transfers-in/out without reimbursement (+/-)	-	-
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(22,205)	60,861
Imputed financing from costs absorbed by others	11,925	9,329
Total Financing Sources	24,136	75,051
Net Cost of Operations (+/-)	3,308	67,515
Net Change	20,827	7,536
Cumulative Results of Operations	(3,255)	(24,082)
UNEXPENDED APPROPRIATIONS		
Budgetary Financing Sources:		
Appropriations received	34,416	5,275
Other adjustments (rescissions, etc.) (+/-)	-	(414)
Appropriations used	(34,416)	(4,861)
Ending Balances	-	-
NET POSITION	$ (3,255)	$ (24,082)

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Reutilization & Marketing

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ -	$ -
Budget authority		
Appropriation	34,416	5,275
Contract authority	208,504	377,057
Spending authority from offsetting collections:		
Earned		
Collected	274,959	311,808
Change in receivables from Federal sources	(1,602)	732
Change in unfilled customer orders		
Advance received	(14,427)	(4,043)
Without advance from Federal sources	(692)	56
Subtotal	501,158	690,885
Nonexpenditure transfers, net, anticipated and actual	-	-
Permanently not available	(292,654)	(313,828)
Total Budgetary Resources	$ 208,504	$ 377,057

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Reutilization & Marketing

Combined Statements of Budgetary Resources (Continued)
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 208,504	$ 377,057
Total Status of Budgetary Resources	208,504	377,057
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	149,600	146,032
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(6,873)	(6,085)
Total unpaid obligated balance, net	142,727	139,947
Obligations incurred, net	208,504	377,057
Less: Gross outlays	(276,933)	(373,488)
Change in uncollected customer payments from Federal sources (+/-)	2,295	(788)
Obligated balance, net, end of period		
Unpaid obligations	81,171	149,600
Less: Uncollected customer payments	(4,578)	(6,873)
from Federal sources (+/-)	-	-
Total unpaid obligated balance, net, end of period	76,593	142,727
Net Outlays:		
Gross outlays	276,933	373,488
Less: Offsetting collections	(260,533)	(307,766)
Net Outlays	$ 16,400	$ 65,722

The accompanying notes are an integral part of these statements.

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Defense Logistics Agency
Working Capital Fund

Document Automation & Production Service
Activity Group Overview
For the Fiscal Year Ended September 30, 2009

DOCUMENT AUTOMATION & PRODUCTION SERVICE ACTVITY GROUP

The Document Automation & Production Service (DAPS) is responsible for printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated services to include: document workflow, conversion, electronic storage and output, and distribution of hard copy and digital information. DAPS provides time sensitive, competitively priced, high quality products and services that are either produced in-house or procured commercially. DAPS manages its mission through a headquarters, located in Mechanicsburg, PA, and a worldwide network of 182 production facilities. During FY 2009, DAPS earned approximately $ 33 million in revenue and employed about 850 civilians at year-end. Major customers were: Air Force (20.1%), Navy (26%), Army (23%), Defense Agencies (27.1%), and non-DoD customers (3.8%).

MISSION

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

STRATEGIC GOALS

DAPS is committed to the following goals:

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

PROGRAM INITIATIVES AND ACCOMPLISHMENTS

Most Efficient Organization (MEO) consisted of three base years, two award years, and two option years. Extension of the organization into the option years was at the discretion of the Government and was based on DAPS achieving metrics for cost, quality, technical innovation, and customer achievement. DAPS met or exceeded its metrics in all seven annual performance periods and completed its final option year in September 2009. Following completion of its term as an MEO, DAPS pursued the designation of a High Performing Organization.

High Performing Organization (HPO) designation was conferred upon DAPS by the Deputy Under Secretary of Defense for Installations and Environment (DUSD(I&E)) in May 2008. DAPS earned its HPO designation based on: cost savings achieved, with a balanced focus on management and customer service; innovative efforts to move the DoD from paper to digital documents; processes and governance to effectively align staffing with workload changes; effective performance monitoring by the Government; and clearly defined performance requirements and metrics. In June 2009, DUSD(I&E) extended the DAPS HPO designation from a 3-year to a 5-year period that will expire at the end of September 2014.

Enterprise Business System (EBS) was implemented by DAPS in June 2009 as an incremental step in DLA's modernization effort to bring all organizations under a single Enterprise Resource Planning system. The benefits to DLA include: increased efficiencies to its business processes; improved management information reporting; and reduced cost of maintaining multiple legacy systems. DAPS' implementation included the automation of the business process used for commercial procurement through the Government Printing Office, as well as, the automation of the Equipment Management Solutions program.

PROGRAM PERFORMANCE INDICATORS

Product Rework: In-house rework percentage is used to measure the quality of delivered products. This performance metric is calculated by dividing revenue lost from orders not accepted by the total in-house production revenue. During FY 2009, DAPS achieved a rework percentage of 0.11, exceeding its goal of 0.25%.

Customer Satisfaction: This performance metric measures satisfied customers as the percentage of customers ranking DAPS performance as "satisfied" or "very satisfied." DAPS uses a survey professionally prepared and administered by an independent commercial entity to determine an overall customer satisfaction rating. DAPS achieved a customer satisfaction rating of 97% for FY 2009, exceeding its goal of 90%.

On-Time Delivery (In-house Production): This performance metric measures the timeliness of customer order completion. The performance metric is calculated by dividing the total number of orders filled on time by a DAPS owned and operated production facility (in-house) by the total number of orders filled by these facilities. DAPS achieved an on-time delivery rate of 98.18 %, exceeding its goal of 98%.

FINANCIAL PERFORMANCE MEASURES

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

Unit Cost Results	FY 09 Goal	FY 09 Actual
Unit Cost per In-House Production Unit	0.0593	0.0576

DAPS produced 13% fewer in-house units than planned (2,307 million actual versus 2,647 million planned); and actual in-house costs were almost 15% lower than planned ($133 million actual versus $157 million planned). By incurring significantly less cost, while producing slightly fewer units, DAPS was able to better its unit cost goal by more than 3%.

FINANCIAL RESULTS

The Net Cost of Operations, which includes costs not recovered by the Defense-wide Working Capital Fund (military construction depreciation, imputed expenses, and accounting adjustments), reflects an excess of expenses over revenue of approximately $11.7 million.

Defense Logistics Agency
Working Capital Fund

Document Automation & Production Service Activity Group

Consolidated and Combined Financial Statements
As of and for the Years Ended September 30, 2009 and 2008

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Document Automation & Production Service

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Accounts Receivable (Note 5)	$ 45,563	$ 7,413
Total Intragovernmental Assets	45,563	7,413
Cash and Other Monetary Assets (Note 7)	-	-
Accounts Receivable, Net (Note 5)	1,320	651
Inventory and Related Property, Net (Note 9)	2,766	5,549
General Property, Plant, and Equipment, Net (Note 10)	10,060	10,793
Other Assets (Note 6)	4	865
TOTAL ASSETS	59,713	25,271
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	11,915	2,955
Other Liabilities (Notes 15 & 16)	1,921	1,430
Total Intragovernmental Liabilities	13,836	4,385
Accounts Payable (Note 12)	19,523	44,795
Military Retirement and Other Federal Employment Benefits (Note 17)	9,820	9,782
Other Liabilities (Notes 15 & 16)	6,580	6,590
TOTAL LIABILITIES	49,759	65,552
NET POSITION		
Cumulative Results of Operations – Other Funds	9,954	(40,281)
TOTAL NET POSITION	9,954	(40,281)
TOTAL LIABILITIES AND NET POSITION	$ 59,713	$ 25,271

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Document Automation & Production Service

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

	2009	2008
PROGRAM COSTS		
Gross Costs	$ 348,572	$ 345,688
Less: Earned Revenue	(336,871)	(358,082)
Net Program Costs	11,701	(12,394)
NET COST OF OPERATIONS	$ 11,701	$ (12,394)

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Document Automation & Production Service

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ (40,281)	$ (10,539)
Beginning Balances, as adjusted	(40,281)	(10,539)
Budgetary Financing Sources:		
Transfers-in/out without reimbursement (+/-)	-	30,000
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	56,636	(76,895)
Imputed financing from costs absorbed by others	5,300	4,759
Total Financing Sources	61,936	(42,136)
Net Cost of Operations (+/-)	11,701	(12,394)
Net Change	50,235	(29,742)
Cumulative Results of Operations	$ 9,954	$ (40,281)

The accompanying notes are an integral part of these statements.

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Document Automation & Production Service

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 22,761	$ (23,848)
Recoveries of prior year unpaid obligations	2,084	55
Budget authority		
Contract authority	5,515	409
Spending authority from offsetting collections:		
Earned		
Collected	295,717	418,831
Change in receivables from Federal sources	40,819	(61,414)
Change in unfilled customer orders		
Advance received	292	1
Without advance from Federal sources	16,399	1,987
Subtotal	358,742	359,814
Nonexpenditure transfers, net, anticipated and actual	-	30,000
Permanently not available	(3,477)	(4,991)
Total Budgetary Resources	$ 380,110	$ 361,030

Unaudited

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND
Document Automation & Production Service

Combined Statements of Budgetary Resources (Continued)
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
Status Of Budgetary Resources:		
Obligations incurred:		
Reimbursable	$ 387,415	$ 338,269
Subtotal	387,415	338,269
Unobligated balance:		
Apportioned	-	22,761
Exempt from apportionment	(7,305)	-
Subtotal	(7,305)	22,761
Total Status of Budgetary Resources	380,110	361,030
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	92,306	126,242
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(29,074)	(88,501)
Total unpaid obligated balance, net	63,232	37,741
Obligations incurred, net	387,415	338,269
Less: Gross outlays	(352,644)	(372,149)
Less: Recoveries of prior year obligations, actual	(2,084)	(55)
Change in uncollected customer payments from Federal sources (+/-)	(57,218)	59,427
Obligated balance, net, end of period		
Unpaid obligations	124,993	92,306
Less: Uncollected customer payments from Federal sources (+/-)	(86,292)	(29,074)
Total unpaid obligated balance, net, end of period	38,701	63,232
Net Outlays:		
Gross outlays	352,644	372,149
Less: Offsetting collections	(296,009)	(418,832)
Net Outlays	$ 56,635	$ (46,683)

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
General Fund

Consolidated and Combined Financial Statements
As of and for the Years Ended September 30, 2009 and 2008

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Consolidated Balance Sheets
As of September 30, 2009 and 2008
(In Thousands)

	2009	2008
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 974,545	$ 757,876
Accounts Receivable (Note 5)	18,497	11,990
Total Intragovernmental Assets	993,042	769,866
Accounts Receivable, Net (Note 5)	1	120
General Property, Plant, and Equipment, Net (Note 10)	320,403	277,546
Other Assets (Note 6)	1,694	-
TOTAL ASSETS	1,315,140	1,047,532
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	5,191	11,131
Other Liabilities (Note 15 & 16)	6,959	6,004
Total Intragovernmental Liabilities	12,150	17,135
Accounts Payable (Note 12)	21,083	23,448
Military Retirement and Other Federal Employment Benefits (Note 17)	7,861	6,245
Environmental and Disposal Liabilities (Note 14)	214,659	257,415
Other Liabilities (Note 15 & 16)	4,122	3,094
TOTAL LIABILITIES	259,875	307,337
NET POSITION		
Unexpended Appropriations – Other Funds	962,801	733,951
Cumulative Results of Operations – Other Funds	92,464	6,244
TOTAL NET POSITION	1,055,265	740,195
TOTAL LIABILITIES AND NET POSITION	$ 1,315,140	$ 1,047,532

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Consolidated Statements of Net Cost
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 18)

	2009	2008
PROGRAM COSTS		
Gross Costs	$ 557,912	$ 713,504
Less: Earned Revenue	(52,711)	(40,082)
Net Program Costs	505,201	673,422
NET COST OF OPERATIONS	$ 505,201	$ 673,422

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 19)

	2009	2008
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 6,244	$ 152,273
Budgetary Financing Sources:		
Appropriations used	655,785	661,835
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(66,406)	(136,544)
Imputed financing from costs absorbed by others	2,236	1,906
Other (+/-)	(194)	196
Total Financing Sources	591,421	527,393
Net Cost of Operations (+/-)	505,201	673,422
Net Change	86,220	(146,029)
Cumulative Results of Operations	92,464	6,244
UNEXPENDED APPROPRIATIONS		
Beginning Balances	733,951	689,926
Budgetary Financing Sources:		
Appropriations received	868,902	686,267
Appropriations transferred-in/out (+/-)	29,159	28,581
Other adjustments (rescissions, etc.) (+/-)	(13,426)	(8,988)
Appropriations used	(655,785)	(661,835)
Total Financing Sources	228,850	44,025
Net Change	228,850	44,025
Ending Balances	962,801	733,951
NET POSITION	$ 1,055,265	$ 740,195

The accompanying notes are an integral part of these statements.

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
BUDGETARY FINANCING ACCOUNTS		
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 158,461	$ 219,985
Recoveries of prior year unpaid obligations	31,050	35,990
Budget authority		
Appropriation	868,902	686,267
Spending authority from offsetting collections:		
Earned		
Collected	43,884	45,014
Change in receivables from Federal sources	6,196	(6,075)
Change in unfilled customer orders		
Without advance from Federal sources	111	830
Subtotal	919,093	726,036
Nonexpenditure transfers, net, anticipated and actual	29,159	28,581
Permanently not available	(13,425)	(8,987)
Total Budgetary Resources	$ 1,124,338	$ 1,001,605

Unaudited

DEPARTMENT OF DEFENSE
DEFENSE LOGISTICS AGENCY GENERAL FUND

Combined Statements of Budgetary Resources (Continued)
For the Years Ended September 30, 2009 and 2008
(In Thousands) (See Note 20)

	2009	2008
Status Of Budgetary Resources:		
Obligations incurred:		
Direct	$ 862,246	$ 801,740
Reimbursable	50,199	41,404
Subtotal	912,445	843,144
Unobligated balance:		
Apportioned	173,732	123,539
Subtotal	173,732	123,539
Unobligated balance not available	38,161	34,922
Total Status of Budgetary Resources	1,124,338	1,001,605
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	616,086	527,619
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(16,671)	(21,916)
Total unpaid obligated balance, net	599,415	505,703
Obligations incurred, net	912,445	843,144
Less: Gross outlays	(711,851)	(718,686)
Less: Recoveries of prior year unpaid obligations, actual	(31,049)	(35,990)
Change in uncollected customer payments from Federal sources (+/-)	(6,307)	5,245
Obligated balance, net, end of period		
Unpaid obligations	785,631	616,087
Less: Uncollected customer payments from Federal sources (+/-)	(22,978)	(16,671)
Total unpaid obligated balance, net, end of period	762,653	599,416
Net Outlays:		
Gross outlays	711,851	718,686
Less: Offsetting collections	(43,884)	(45,014)
Net Outlays	$ 667,967	$ 673,672

The accompanying notes are an integral part of these statements.

Defense Logistics Agency
General Fund

Notes to the Consolidated and Combined Financial Statements
For the Fiscal Years Ended September 30, 2009 and 2008

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Defense Logistics Agency (DLA) General Fund (GF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of DLA in accordance with and to the extent possible, U.S. generally accepted accounting principle (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements; and the Department of Defense (DoD) Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which DLA is responsible unless otherwise noted.

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

The DLA is unable to fully implement all elements of USGAAP and OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The DLA derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The DLA continues to implement process and system improvements addressing these limitations.

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

B. Mission of the Reporting Entity

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

The DLA provides supply support, technical/logistics services and quality support to all branches of the Military and other nonDoD customers. The services provided fall into the following activity groups: Supply Management, Defense Distribution Center, Defense Reutilization and Marketing Service, and Document Automation & Production Service. Supply Management is comprised of NonEnergy and Energy. NonEnergy supply is further divided into the following supply chains: Clothing and Textiles, Medical, Subsistence, Construction and Equipment, Aviation, Land, and Maritime.

The DLA continues to leverage its operational efficiencies to implement the Base Realignment and Closure 2005 Supply and Storage recommendations. The DLA has engaged in the following transformational initiatives with the Military Departments: (1) Commodity Management Privatization to privatize the supply and storage of selected commodities (i.e., tires, compressed gases and petroleum, oil, lubricant packages); (2) Depot - Level Reparable (Procurement Management/Consumable Item Transfer) to realign procurement management of repair parts from the Military Services to DLA at selected sites and to transfer supply management of selected consumable items to DLA; and (3) Supply, Storage and Distribution Reconfiguration to realign supply, storage and distribution functions through consolidation and management reconfiguration at 13 sites.

C. Appropriations and Funds

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

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

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

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

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

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

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

D. Basis of Accounting

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

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

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

E. Revenues and Other Financing Sources

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

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

F. Recognition of Expenses

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

G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, DLA cannot accurately identify intragovernmental transactions by customer because DLA's systems do not track buyer and seller data at the transaction level. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The volume of intragovernmental transactions is so large that reconciliations cannot be accomplished effectively. The DoD is developing long-term system improvements to ensure accurate intragovernmental information, including developing sufficient up-front edits and controls eliminating the need for reconciliations.

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

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

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

H. Transactions with Foreign Governments and International Organizations

Not Applicable to DLA GF.

I. Funds with the U.S. Treasury

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

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

J. Foreign Currency

Not Applicable to DLA GF.

K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon the Analysis of Receivables by Age Group Method. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

L. Direct Loans and Loan Guarantees

Not Applicable to DLA GF.

M. Inventories and Related Property

Not Applicable to DLA GF.

N. Investments in U.S. Treasury Securities

Not Applicable to DLA GF.

O. General Property, Plant and Equipment

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

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

P. Advances and Prepayments

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

Q. Leases

Not Applicable to DLA GF.

R. Other Assets

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

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

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

S. Contingencies and Other Liabilities

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

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

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

T. Accrued Leave

The DLA reports liabilities for accrued compensatory and annual leave for civilians. Sick leave and travel compensatory time are expensed as taken. The liabilities are based on current pay rates.

U. Net Position

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

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

Cumulative Results of Operations represent the net difference, between expenses and losses and financing sources (including appropriations, revenue, and gains), since inception. Beginning with FY 1998, the cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

V. Treaties for Use of Foreign Bases

Not Applicable to DLA GF.

W. Unexpended Obligations

The DLA obligates funds to provide goods and services for outstanding orders not yet delivered. Unless the title has passed, the financial statements do not reflect a liability for payment for goods and services not yet delivered. Unexpended obligations include both obligations for which goods and services have been delivered (title passed) and a liability recognized, and obligations for which no delivery has occurred and no liability recognized. The balance of unexpended obligations appears immediately before net outlays in the Statement of Budgetary Resources, and is referred to as "Total, unpaid obligated balances, net, end of period."

X. Undistributed Disbursements and Collections

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

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

Y. Significant Events

Not Applicable to DLA GF.

Z. Fiduciary Activities

Not Applicable to DLA GF.

Note 2. Nonentity Assets

As of September 30	2009	2008
(Amounts in thousands)		
Total Entity Assets	$ 1,315,140	$ 1,047,532
Total Assets	$ 1,315,140	$ 1,047,532

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

Note 3. Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
Fund Balances		
Appropriated Funds	$ 974,545	$ 757,876
Total Fund Balances	$ 974,545	$ 757,876
Fund Balances Per Treasury Versus Agency		
Fund Balance per DLA	974,545	757,876
Reconciling Amount	$ (974,545)	$ (757,876)

The DLA shows a $974.5 million reconciling net difference with U.S. Treasury. The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense Agencies, to include DLA, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate Defense Agencies. As a result, the U.S. Treasury does not separately report an amount for DLA and, therefore, the entire DLA Fund Balance with Treasury (FBWT) amount is reflected as a reconciling amount.

Status of Fund Balance with Treasury

As of September 30	2009	2008
(Amounts in thousands)		
Unobligated Balance		
Available	$ 173,733	$ 123,540
Unavailable	38,159	34,921
Obligated Balance not yet Disbursed	785,631	616,086
NonFBWT Budgetary Accounts	(22,978)	(16,671)
Total	$ 974,545	$ 757,876

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

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

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

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as unavailable receipt accounts or clearing accounts.

NonFBWT Budgetary Accounts reduces the Status of FBWT. DLA's NonFBWT Budgetary Accounts consists of unfilled customer orders without advance and accounts receivable.

Unobligated balances are segregated to show available and unavailable amounts in the note schedule. Certain unobligated balances may be restricted to future use and are not apportioned for current use. There are no restrictions on DLA's unobligated balances.

Note 4. Investments and Related Interest

Not Applicable to DLA General Fund.

Note 5. Accounts Receivable

As of September 30	2009		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 18,497	N/A	$ 18,497
Nonfederal Receivables (From the Public)	$ 1	$ 0	$ 1
Total Accounts Receivable	$ 18,498	$ 0	$ 18,498

As of September 30	2008		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
Intragovernmental Receivables	$ 11,990	N/A	$ 11,990
Nonfederal Receivables (From the Public)	$ 120	$ 0	$ 120
Total Accounts Receivable	$ 12,110	$ 0	$ 12,110

Note 6. Other Assets

As of September 30	2009	2008
(Amounts in thousands)		
Advances and Prepayments	$ 1,694	$ 0
Total Other Assets	$ 1,694	$ 0

Note 7. Cash and Other Monetary Assets

Not Applicable to DLA General Fund.

Note 8. Direct Loan and Loan Guarantees

Not Applicable to DLA General Fund.

Note 9. Inventory and Related Property

Not Applicable to DLA General Fund.

Note 10. General PP&E, Net

As of September 30	2009				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress	N/A	N/A	$ 320,403	$ N/A	$ 320,403
Total General PP&E			$ 320,403	$ 0	$ 320,403

As of September 30	2008				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	Net Book Value
(Amounts in thousands)					
Major Asset Classes					
Construction-in-Progress	N/A	N/A	$ 277,546	$ N/A	$ 277,546
Total General PP&E			$ 277,546	$ 0	$ 277,546

Legend for Valuation Methods:
N/A = Not Applicable

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

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

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
Intragovernmental Liabilities		
Other	$ 6,670	$ 5,095
Total Intragovernmental Liabilities	$ 6,670	$ 5,095
Nonfederal Liabilities		
Accounts Payable	5,507	5,505
Military Retirement and Other Federal Employment Benefits	7,861	6,245
Environmental Liabilities	184,171	221,482
Other Liabilities	3,058	2,582
Total Nonfederal Liabilities	$ 200,597	$ 235,814
Total Liabilities Not Covered by Budgetary Resources	$ 207,267	$ 240,909
Total Liabilities Covered by Budgetary Resources	$ 52,608	$ 66,428
Total Liabilities	$ 259,875	$ 307,337

Liabilities Not Covered by Budgetary Resources are liabilities for which congressional action is needed before budgetary resources can be provided. The DLA General Fund current year liabilities not covered by budgetary resources are primarily comprised of environmental liabilities. These environmental liabilities are estimates related to future events and therefore are unfunded.

Accounts Payable consists of undelivered orders for open contracts citing cancelled appropriations which remain unfulfilled or unreconciled and for which DLA may incur a contractual commitment for payment.

Composition of Other Lines

Intragovernmental Liabilities Other primarily consists of estimated unemployment compensation.

Nonfederal Liabilities Other consists primarily of accruals recorded for unfunded leave owed to civilian employees. It also includes the unpaid portion of compensatory time and credit hours not taken but earned by employees who are entitled to compensation.

Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of Federal Employees Compensation Act (FECA) benefits for $7.9 million. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2009		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 5,191	$ N/A	$ 5,191
Nonfederal Payables (to the Public)	21,083	0	21,083
Total	$ 26,274	$ 0	$ 26,274

As of September 30	2008		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
(Amounts in thousands)			
Intragovernmental Payables	$ 11,131	$ N/A	$ 11,131
Nonfederal Payables (to the Public)	23,448	0	23,448
Total	$ 34,579	$ 0	$ 34,579

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by DLA. The DLA's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with internal seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable.

Note 13. Debt

Not Applicable to DLA General Fund.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2009	2008
(Amounts in thousands)		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	158,924	207,119
Environmental Corrective Action	20,213	9,912
Environmental Closure Requirements	2,801	2,613
Installation Restoration Program	32,721	37,771
Total Environmental Liabilities	$ 214,659	$ 257,415

The DLA Environmental Liabilities (EL) are derived from current and out-year Remedial Action Cost Engineering & Requirements (RACER) estimates generated for 51 Defense Environmental Restoration Program (DERP), 148 Non-Defense Environmental Restoration Program (Non-DERP) sites, and 28 Base Realignment and Closure (BRAC) sites. In August 2008, DLA executed the RACER model to generate the fiscal year (FY) 2009 Cost to Complete (CTC) estimates of anticipated costs necessary to complete environmental restoration requirements.

The DLA has developed a plan for collecting and reporting EL for Non-DERP contamination at DLA managed installations including government-owned contractor-operated fuel points and for Service-owned and operated fuel terminals where DLA stores fuel. To obtain the Service-owned fuel terminals data, DLA developed an environmental template that will be provided to the Military Services after the Office of the Under Secretary of Defense (Comptroller) resolves real property record inconsistencies between the Military Services and DLA.

Applicable Laws and Regulations for Cleanup Requirements

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

Types of Environmental Liabilities and Disposal Liabilities

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

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods.

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

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

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

The DLA had changes in estimates for FY 2009 resulting from changes in site conditions, recent groundwater modeling data, better site characterization, and improved analysis by program managers. The DLA's EL are expected to fluctuate due to changes in agreements with regulatory agencies, deflation, inflation, and technology. The FY 2009 CTC has incorporated the DoD inflation factors into the BRAC, DERP and Non-DERP closure estimates. The latest version of RACER (2009 version 10.2) was used to rebaseline estimates.

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

The EL for DLA are based on accounting estimates which require certain judgments and assumptions that are reasonable based upon information available at the time of the RACER calculation. The actual results may vary materially from the accounting estimates if regulatory agencies require different remediation than anticipated at the time of the calculation. The liabilities can be further impacted if ongoing or future investigation discloses contamination levels that differ from expected values.

Although DLA has instituted extensive controls to ensure that these estimates are accurate and reproducible, they are generally considered accurate at +/- 20%. This percentage is supported by a 2004 RACER validation. RACER is currently undergoing another validation that will provide updated supporting statistical analysis. The stated total liability is an estimate of current and future liabilities, as the majority of DLA sites will require cleanup for up to 30 years. Estimates for work that are more than 1 to 2 years in the future may be subject to significant change.

Liability for Overseas Bases

In addition to the liabilities reported above, DLA has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The DLA is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

Note 15. Other Liabilities

As of September 30	2009		
	Current Liability	Noncurrent Liability	Total
(Amounts in thousands)			
Intragovernmental			
FECA Reimbursement to the Department of Labor	$ 0	$ 810	$ 810
Employer Contribution and Payroll Taxes Payable	289	0	289
Other Liabilities	5,860	0	5,860
Total Intragovernmental Other Liabilities	$ 6,149	$ 810	$ 6,959
Nonfederal			
Accrued Funded Payroll and Benefits	$ 588	$ 0	$ 588
Accrued Unfunded Annual Leave	3,058	0	3,058
Contract Holdbacks	476	0	476
Total Nonfederal Other Liabilities	$ 4,122	$ 0	$ 4,122
Total Other Liabilities	$ 10,271	$ 810	$ 11,081

Other Liabilities (Continued):

As of September 30	2008					
	Current Liability		Noncurrent Liability		Total	
(Amounts in thousands)						
Intragovernmental						
FECA Reimbursement to the Department of Labor	$	719	$	0	$	719
Employer Contribution and Payroll Taxes Payable		189		0		189
Other Liabilities		5,096		0		5,096
Total Intragovernmental Other Liabilities	$	6,004	$	0	$	6,004
Nonfederal						
Accrued Unfunded Annual Leave		2,582		0		2,582
Contract Holdbacks		512		0		512
Total Nonfederal Other Liabilities	$	3,094	$	0	$	3,094
Total Other Liabilities	$	9,098	$	0	$	9,098

Composition of Other Lines

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

Note 16. Commitments and Contingencies

The DLA is not aware of any contingent liabilities for legal actions for General Fund.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30	2009			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
FECA	$ 7,861		$ 0	$ 7,861
Total Other Actuarial Benefits	$ 7,861		$ 0	$ 7,861
Total Military Retirement and Other Federal Employment Benefits:	$ 7,861		$ 0	$ 7,861

As of September 30	2008			
	Liabilities	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)				
FECA	$ 6,245		$ 0	$ 6,245
Total Other Actuarial Benefits	$ 6,245		$ 0	$ 6,245
Total Military Retirement and Other Federal Employment Benefits:	$ 6,245		$ 0	$ 6,245

Actuarial Calculations

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

Expense Components

The only expense component for 4th Quarter, FY 2009 is the Federal Employees Compensation Act.

Actuarial Cost Method and Assumptions

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

4.223% in Year 1
4.715% in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (Consumer Price Index Medical (CPIMs)) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2009	N/A	N/A
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71% and thereafter

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions; (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid loses per case (a measure of case-severity) in CBY 2009 to the average pattern observed during the most current three charge back years; and (4) a comparison of the estimated liability per case in the 2009 projection to the average pattern for the projections for the most recent three years.

Programs Upon Which Actuarial Calculation are Based (Retirement Systems)

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

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

Intragovernmental Costs and Exchange Revenue

As of September 30	2009	2008
(Amounts in thousands)		
Intragovernmental Costs	$ 135,729	$ 107,564
Public Costs	422,183	605,940
Total Costs	$ 557,912	$ 713,504
Intragovernmental Earned Revenue	$ (46,976)	$ (36,831)
Public Earned Revenue	(5,735)	(3,251)
Total Earned Revenue	$ (52,711)	$ (40,082)
Net Cost of Operations	$ 505,201	$ 673,422

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government", as amended by SFFAS No. 30, "Inter-entity Cost Implementation".

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

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

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

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

Composition of Other Lines

Other Financing Sources: Other (+/-) consists of transaction correcting funds transfer.

Unexpended Appropriations: Other Adjustments (rescissions, etc) consists of a permanent reduction to unexpended appropriations.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2009	2008
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 765,205	$ 585,592
Total	$ 765,205	$ 585,592

Abnormal Balance

USSGL Account 4982 ($1,237,918.54) Upward Adjustment of Prior Year Delivered Orders – Obligations, Paid.

During 1st Quarter, FY 2009, DLA added new functionality to the Enterprise Business System (EBS) with the SAP Upgrade 6.0. The upgrade included changes to correct discrepancies between budgetary and proprietary accounts, which included USSGL 4982. The DLA and DFAS have determined that a number of transactions have posted to this account as normal and abnormal since the upgrade. We are continuing to research the abnormal transactions to identify the issues and actions needed to correct the problem.

The DLA anticipates the abnormal transactions will be corrected during FY 2010.

Apportionment Categories for Obligations

The DLA had apportionment category A direct and reimbursable obligations incurred and Category B direct obligations incurred. The table below summarizes the apportionment categories.

($ millions)	Category A	Category B	Totals
Direct Obligations Incurred	407.0	455.2	862.2
Reimbursable Obligations Incurred	50.2	0.0	50.2
Total	457.2	455.2	912.4

Other Disclosures

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

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30	2009	2008
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 912,445	$ 843,144
Less: Spending authority from offsetting collections and recoveries (-)	(81,241)	(75,759)
Obligations net of offsetting collections and recoveries	831,204	767,385
Net Obligations	$ 831,204	$ 767,385
Other Resources:		
Transfers in/out without reimbursement (+/-)	(66,406)	(136,544)
Imputed financing from costs absorbed by others	2,236	1,906
Other (+/-)	(194)	196
Net Other Resources Used to Finance Activities	$ (64,364)	$ (134,442)
Total Resources Used to Finance Activities	$ 766,840	$ 632,943
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Undelivered Orders (-)	(179,613)	(74,964)
Unfilled Customer Orders	111	830
Resources that fund expenses recognized in prior Periods (-)	(42,757)	(6,209)
Other (+/-)	66,600	136,349
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ (155,659)	$ 56,006
Total Resources used to Finance the Net Cost of Operations	$ 611,181	$ 688,949

Reconciliation of Net Cost of Operations to Budget (Continued):

As of September 30	2009	2008
(Amounts in thousands)		
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	$ 476	$ 364
Increase in environmental and disposal Liability	0	0
Other (+/-)	3,193	3,400
Total Components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 3,669	$ 3,764
Components not Requiring or Generating Resources:		
Revaluation of assets or liabilities (+/-)	(457)	20,477
Other	(109,192)	(39,768)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ (109,649)	$ (19,291)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	$ (105,980)	$ (15,527)
Net Cost of Operations	$ 505,201	$ 673,422

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

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

The amount of $241.4 thousand of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost (SoNC). The adjustment was processed because of imbalances between the budgetary and proprietary amounts recorded in DLA's accounting systems, to Other Components Not Requiring of Generating Resources.

The following note schedule lines are presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated:

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

Composition of Other Lines

Resources Used to Finance Activities: Other consists of a gain from various transactions which have no budgetary impact.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations: Other consists of transfers out of Construction in Progress (CIP) to the appropriate Services upon completion.

Components Not Requiring or Generating Resources in future period: Other consists primarily of worker's compensation, unemployment, and Federal Employees Compensation Act.

Components Not Requiring or Generating Resources: Other consists primarily of operating expenses that were reclassified as CIP.

Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable to DLA General Fund.

Note 23. Earmarked Funds

Not Applicable to DLA General Fund.

Note 24. Fiduciary Activities

Not Applicable to DLA General Fund.

Note 25. Other Disclosures

No required disclosures.

Note 26. Restatements

Not Applicable to DLA General Fund.