AMERICA'S LOGISTICS
COMBAT SUPPORT AGENCY

DEFENSE LOGISTICS AGENCY WORKING CAPITAL FUND

Chief Financial Officer
Annual Financial Statement
Fiscal Year 1998

March 1, 1999

MESSAGE FROM THE DIRECTOR

Since its establishment as the Defense Supply Agency in 1961, DLA has supported every war, every major contingency, and every theater of operations where our sailors, airmen, soldiers and marines have been deployed. We have been instrumental in ensuring victory by America's Armed Forces by providing required supplies and services, around the clock, around the world. DLA has received two unit citations, which attest to our focus and ethos as America's Logistics Combat Support Agency.

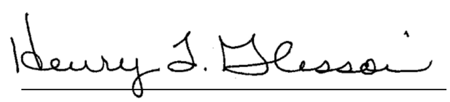
We are now entering a new century that will provide the most significant period of change in our Armed Forces since World War II. As modern warfare increases in technological sophistication, speed, and complexity, logistics and acquisition organizations must change to keep pace. To remain relevant, DLA will reshape and refocus, applying the same innovation, teamwork, warfighter focus, selfless service, and professionalism that has made us so successful during the past 37 years.

Our refocus and reshaping included revisiting the DLA Strategic Plan during FY 1998. The Strategic Plan defines our vision, mission, values, goals and objectives, and establishes metrics to measure our progress. It emphasizes our support of the Department of Defense's Joint Vision 2010 and its emphasis on focused logistics. Most importantly, it provides an enhanced framework for linking financial and program performance, which will result in more efficient and effective program decisions as we move into the 21^{st} century.

These statements reflect new business practices that DLA has implemented and which have borne many accomplishments. The results reflect DLA's commitment to increased customer satisfaction, obtained through improved quality and lower costs. Our investments in modern technologies and leveraging our buying power have been instrumental in reducing costs and improving quality. Our customer, the warfighter, has and will continue to benefit immensely by our initiatives – scarce resources can be diverted to much needed weapons systems modernization.

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

I believe you will find that the DLA financial statements for FY 1998 represent the results of solid financial management, focused logistical support to our Armed Forces, and efficient use of taxpayer dollars. I am committed to continuous improvements in financial management processes and reporting.



LTG H. T. Glisson, USA
Director, Defense Logistics Agency

(This page intentionally left blank)

MESSAGE FROM THE COMPTROLLER

I am pleased to present the Fiscal Year 1998 Annual Financial Statements for the Defense Logistics Agency Working Capital Fund, prepared in accordance with the Chief Financial Officers Act of 1990.

The preparation of these statements helps in the evaluation of the effectiveness of our financial systems and operations, and is an integral part of my strategy for improving financial management processes within DLA.

DLA has made significant improvements in financial management and reporting, and we are working hard to implement initiatives to obtain an audit opinion on future statements. We have initiated studies on Property, Plant and Equipment and inventory reporting, and developed plans of actions and milestones to address reporting concerns in these areas. These efforts have not only resulted in improved FY 98 statements, but are helping DLA to strengthen internal management controls and improve business practices.

DLA has also significantly improved the links between planning, programming, budgeting, financial results and performance goals. The agency is committed to improving these linkages so that performance is measured in terms of both progress in meeting performance goals and the costs associated with improved performance. Linking costs to higher levels of performance will enable our customers to make more informed decisions and enable DLA to provide superior, best value customer support.

Finally, I am pleased to report that the FY 98 Overview to these statements has been improved as well to provide enhanced information on agency goals, performance measures and accomplishments, all of which are in direct support of the Agency's strategic plan.

Comptroller, Defense Logistics Agency
Linda J. Furiga

DLA has an exemplary record of strong financial management, which has allowed us to return scarce, tax dollars to the warfighter to support readiness goals. As the Agency's Comptroller and Chief Financial Officer, I am proud of this achievement and committed to establishing a strong financial reporting record as well.

Linda J. Furiga

Linda J. Furiga
Comptroller, Defense Logistics Agency

(This page intentionally left blank)

Table of Contents

Table of Contents (Continued)

Overview of the Principal Financial Statements

Defense Logistics Agency - Defense Working Capital Fund

(This page intentionally left blank)

Introduction to the Defense Logistics Agency

(This page intentionally left blank)

OVERVIEW OF THE DEFENSE LOGISTICS AGENCY

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

OUR VISION…

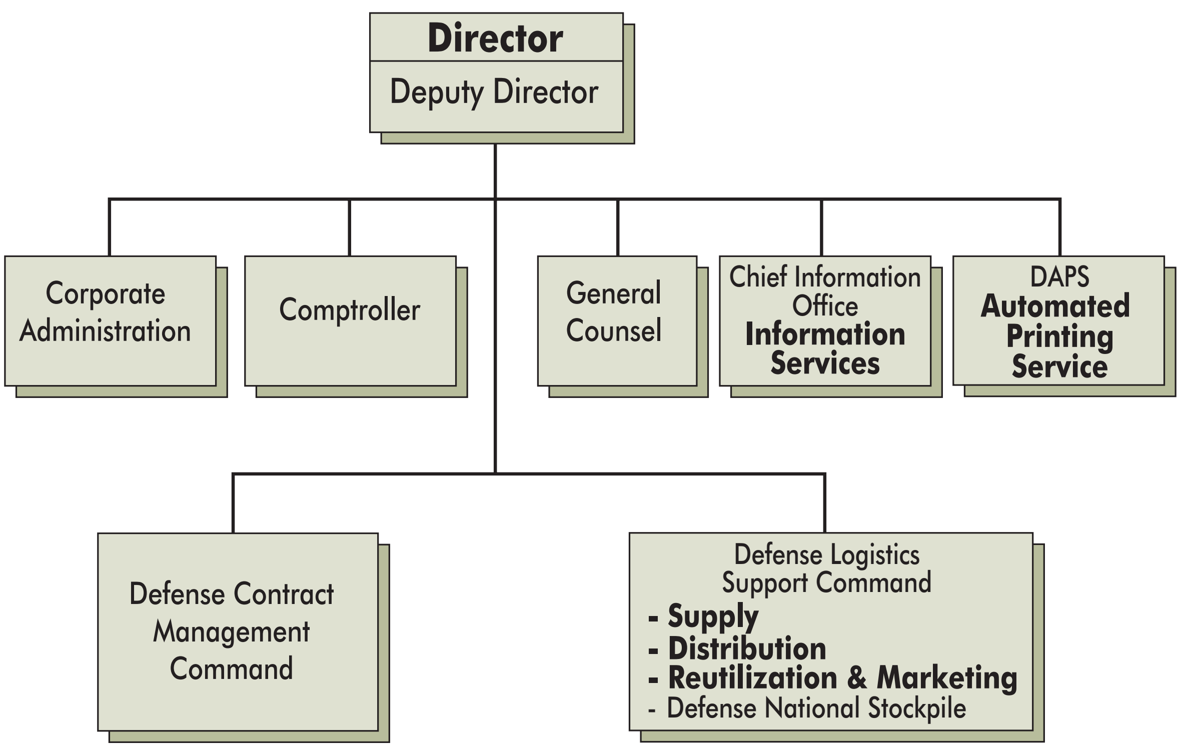
To be America's logistics combat support agency… the warfighter's choice for integrated life cycle solutions through teamwork and partnership.

OUR ETHOS…

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

ORGANIZATION

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



During FY98, DLA employed just over 43,000 personnel and executed a total budget program of $14.8 billion. The Agency is financed through Appropriations and the Defense Working Capital Fund (DWCF). DCMC is shown above for the purposes of providing an overall view of the mission, programs, and size of DLA. However, DCMC is funded through appropriations and therefore, is reported in the DoD General Fund statement.

Five DLA business areas that included in these statements and reported in the DWCF. They are: Supply Management, Distribution, Reutilization and Marketing, Information Services, and Automated Printing Service. The purpose of the DWCF is to create a customer-provider relationship between the military operating forces and support organizations, in order to improve the delivery of support services while reducing the cost of operations. The financial structure of the DWCF allows for identification of the full costs of support, measures performance to foster efficiency and productivity improvements, and enables the customer to make economical buying decisions by providing timely and accurate financial information to the decision maker to enhance the decision making process.

Agency Goals

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

The DLA Strategic Plan outlines our roadmap to the future and establishes metrics to measure our progress. Each of the goals and supporting objectives are implemented throughout the DLA business areas to ensure that, by sharing a common vision, we can continue our successes.

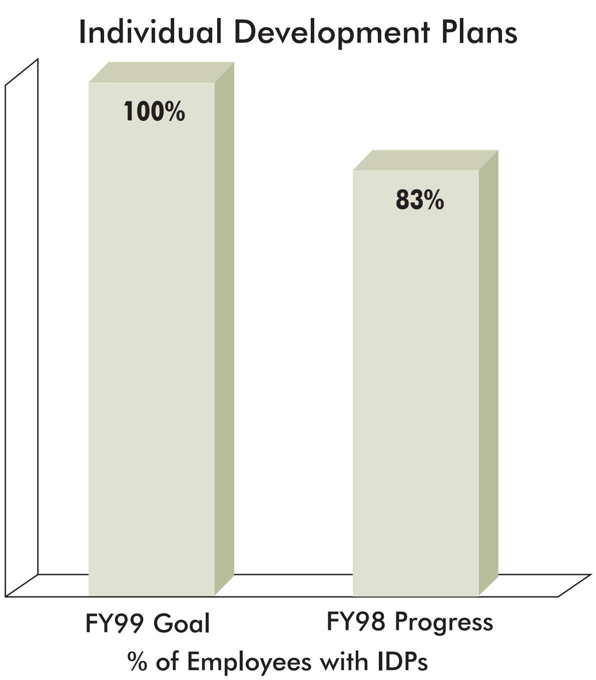
DLA Strategic Goals

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

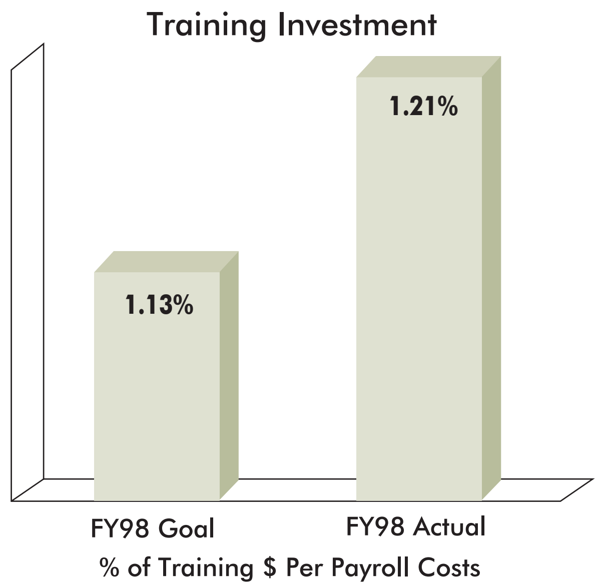
Agency Objectives

Each strategic goal provides a series of supporting objectives, with targeted success dates ranging from FY99 to FY05. The DLA business areas have strategies to support Agency goals and objectives. Progress is reported quarterly. Many of these strategies are tied directly to unique, business-area specific focused logistics efforts and will be addressed later in further detail. However, objectives involving all business areas are coordinated, tracked and reported by staff level organizations. Objectives related to workforce development and information technology are well underway.

- *Individual Development Plans: To achieve our goal of ensuring that the workforce is enabled to deliver and sustain world class performance, we have established an objective to develop individual training plans for all employees by the end of FY99. The Agency is identifying core competencies, researching private sector and government programs on competency based training plans to develop the best approach to maximizing resources.*



- *Training Investment: Another objective is to achieve a training investment level of at least 1.5% of gross payroll cost, linked to documented individual development plans, by FY00. This goal reflects private industry benchmarks. DLA surpassed the interim goal for FY98 and is on track to meet the FY00 objective. Enhancements in configuration and tracking systems are being implemented to ensure accurate tracking and monitoring of training costs.*



- *Implementing our Information Technology Strategic Plan: Implementing the Information Technology (IT) Strategic Plan is one of the primary objectives of the strategic goal to rapidly exploit technology to provide agile, responsive, and interoperable solutions. The Chief Information Office is leading an IT Management Team-chartered, cross-functional working group that is currently refining the implementation objectives. The IT Plan will be fully implemented by FY01, with substantial completion by FY99.*

  The objectives include developing outcome measures and targets, developing objective implementation plans, establishing data *collection procedures, and institutionalizing performance measuring and reporting. When implemented, the IT Strategic Plan will: implement a client/server standards based architecture; establish an IT capital planning and investment control process; ensure our workforce has the current IT skills through continuous IT education and training; and institutionalize a corporate systems life-cycle management process.*

Year 2000 Issues

DLA began Year 2000 (Y2K) remediation of its systems in 1996. As of December 31, 1998, 26 of 33 mission critical systems have been implemented, which means that these 26 systems have Y2K certification and are deployed. The remaining 7 mission critical systems will be implemented between January and May 1999. DLA non-mission critical systems are scheduled for implementation by March 1999.

DLA estimates a total cost of $43 million for remediation of systems, devices, and facility items, and additional costs of $38 million for testing and supplier capability initiatives.

An issue of risk to DLA is the ability of our suppliers to continue to provide products required by our customers. DLA is working closely with vendors and suppliers in assessing the risk and testing systems to help ensure that our system interfaces operate in a Y2K compliant infrastructure.

DLA is currently testing Business Continuity and Contingency Plans that can be used to sustain our mission in the event of a failure to any system supporting our critical logistics and procurement functions.

BUSINESS AREA MISSIONS

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

- *Defense Logistics Support Command includes three business areas:*
  - *The Supply Management business area provides customer support through management of logistics processes. This includes inventory management of consumable items for both peacetime and combat support, and technical support to ensure product quality and proper pricing of materiel.*
  - *The Distribution business area provides distribution and storage of wholesale and retail materiel in support of customers worldwide. This includes receipt, storage, issue, packing, preservation and transportation for over 5 million categories of consumable items used by the warfighter.*
  - *The Reutilization and Marketing business area supports reuse of excess and surplus property within the government and other authorized agencies. This business area is also responsible for disposal of remaining property and hazardous waste items through sales and contractual vehicles.*
- *The Information Services business area provides software development and maintenance, and technology and infrastructure support through a single Central Design Activity. In addition, the business area includes the Defense Automatic Addressing Systems Center, which provides transmission and routing of logistics transactions throughout DoD.*
- *The Automated Printing Services business area provides printing, duplicating and document automation for DoD. The current focus is on the transition from hardcopy to electronic-based documents management.*

DLA CENTER HEADQUATERS (DWCF BUSINESS AREAS)

1 Defense Supply Center Columbus
2 Defense Supply Center Richmond
3 Defense Industrial Supply Center
4 Defense Supply Center Philadelphia
5 Defense Energy Support Center
6 Defense Distribution Center
7 Defense Reutilization and Marketing Service
8 Defense Automated Addressing Center
9 DLA Systems Design Center
10 Defense Logistics Information Service
11 Defense Automated Printing Service
12 Defense Logistics Agency

DEFENSE LOGISTICS SUPPORT COMMAND

A significant portion of the DLA mission is achieved through the Defense Logistics Support Command (DLSC), which is one of DLA's major subordinate commands. The newly formed DLSC fully integrates the functions of logistics information, materiel management, distribution, and disposal. The DLSC mission is to provide focused logistics support to America's Armed Forces. The Command manages DoD fuel, food, medical supplies, and clothing commodities, in addition to 90% of the DoD consumable spare parts. The DLSC mission implements the Department of Defense Joint Vision 2010 by providing logistics support to the warfighter through processes designed to implement focused logistics, which is outlined in the Department of Defense Logistics Strategic Plan. The Department's key logistics goals are to:

- *Provide timely and responsive support to warfighters and other customers.*
- *Achieve maximum logistics productivity.*

Some of the key objectives of the DoD Logistics Strategic Plan, which are supported by DLA through DLSC, include: Customer Satisfaction; Logistics Response Time; Reengineered Logistics Business Processes; Significantly Reduced Logistics Costs to the Customer; Modernize Selected Logistics Information; Competitive Sourcing; Inventory Reduction; Infrastructure Reduction/Capacity Utilization; Virtual Inventory Control Point; and Skilled Logistics Workforce. The DLSC Long-Range Business Plan goals, which are consistent with the DLA Strategic Plan goals, re-iterate these DoD principles. The DLSC Long-Range Business Plan contains 24 near-term objectives with quantifiable performance metrics targeted for implementation between FY00 and FY05. The current near-term performance measures will be addressed under each DLSC business area.

Three business areas within DLSC work together to provide integrated and focused logistics support: Supply Management, Distribution, and Reutilization and Marketing.

(This page intentionally left blank)

DLA Performance – Supply Management

(This page intentionally left blank)

Overview

The Supply Management business area provides materiel and services to support peacetime and combat operations, combat preparedness, and humanitarian aid. This includes integrated materiel management of 4 million spare and repair parts supporting over 1400 weapon systems. Supply Management also provides management of troop support items including subsistence, clothing and textiles, medical supplies, and the purchase and sale of over 100 million barrels of fuel annually. Together these commodities generated FY98 annual revenues of $13.0 billion, nearly 98% of which represented sales to the Military Services. Approximately 9,800 personnel support the Supply Management business area.

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

Mission

The mission of Supply Management is to provide customer support through management of logistics processes, to ensure that logistics support is provided to the Military Services worldwide at the right time, to the right place, and consistently at the best value in peacetime, emergency, and wartime scenarios. Our mission is dynamic as we continue to shift our approach in response to evolving changes in national priorities, requirements of the Military Services, technology, and the commercial marketplace. The primary logistics functions include:

- *Inventory management for both peacetime and combat support*
- *Transportation management (shared with the Distribution business area) for quick response in both normal and emergency situations*
- *Technical management, which guarantees product quality and proper pricing of materiel*
- *Procurement management, ensuring DoD gets the best value in procuring supplies managed by DLA*
- *Obtain, manage and integrate, and distribute logistics data and information*

Goals

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

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

FY98 Accomplishments

- *Defense Supply Center Philadelphia initiated the Virtual Wartime Visibility (VWV), which allows the Center to develop and access commercial market information to maintain visibility over the War Reserve items needed to support the Military Services wartime feeding plan. This plan will enhance the Services' readiness and sustainability in emergency and wartime scenarios.*

- *Defense Supply Center Philadelphia expanded the Vendor Managed Inventory (VMI) Program, which provides the Military Services with guaranteed access to over 600 pharmaceuticals and ensures on-time materiel availability to deploying units. This program also provides wartime sustainment materiel, which ensures adequate troop supplies during contingency mobilization or deployment, until the commercial industrial base can adequately support expanded requirements.*

- *Defense Industrial Supply Center initiated the Prime Vendor Program for facility maintenance which enables procurement of supplies related to Maintenance, Repair, and Operations (MRO) of facilities directly from integrated supply chain contractors. The goal is to leverage our buying power through large contracts at discounted commercial prices, and provide rapid response. The program allows DLA to meet the customers need quickly and at lower prices. It reduces the requirement for inventory stocks and results in reduced overall maintenance supply support infrastructure costs.*

- *Defense Energy Support Center developed the Service Station Initiative. This program will result in significant savings in maintenance, construction, and environmental restoration by using contractors to provide infrastructure and services for fuel support. With limited military construction funds and the increased emphasis on outsourcing, this program aims to reduce infrastructure costs associated with maintaining military facilities and ensuring compliance with environmental laws. The pilot program began in FY98 at Fort Bragg, NC.*

- *Vice President Al Gore's National Partnership for Reinventing Government (NPR) recognized two successful reinvention efforts in Supply Management business practices with Hammer Awards in FY98. These are:*

  - *The Defense Ozone Depleting Substances Reserve. Located at the Defense Supply Center and Defense Distribution Depot Richmond, the Reserve provides DoD with the capability to centrally receive, reclaim and issue Class I ozone-depleting substances. This effort conserves reuse of ozone depleting substances, protects the environment, and reduces procedural requirements to customers on their returns of ozone depleting substances.*

  - *Bid Evaluation Model. This automated system is used to determine the overall lowest cost for more than $3 billion worth of annual fuel contracts. It was radically reengineered by the Defense Energy Support Center to incorporate advances in information technology that allow it to determine fuel distribution patterns more efficiently and economically; and process calculations and reports at much greater speed. The result is more informed decision making for cost effective fuel contracts.*

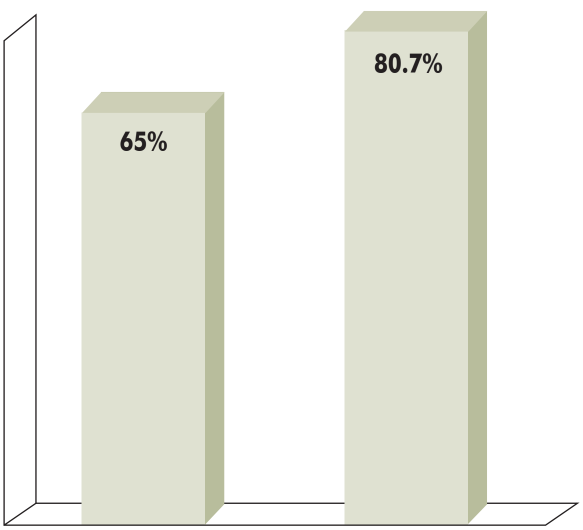
  - *The Defense Industrial Supply Center was among 11 finalists for the Presidential Quality Award*

Performance Measures

The following performance measures are in direct support of the DLA Strategic Plan goals and the Department's logistics concepts. These program and financial performance measures are those that best support the business activity goals and near-term objectives from our customers' perspective.

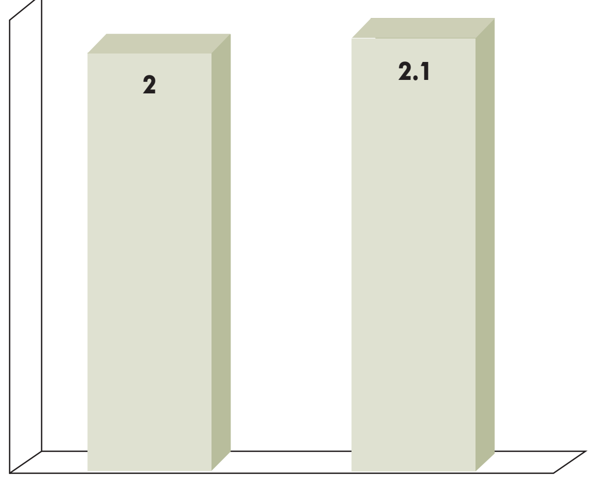
`Customer Satisfaction Index:` *This measure directly supports the DLA objective of achieving 90% customer satisfaction. The results reflect the percentage of customers who responded that they were either "very satisfied" or "satisfied" with the Defense Logistics Support Command products and services. FY98 performance of 80.7% substantially exceeded the FY98 goal of 65%. The FY98 goal was established based on the FY 1995 results of 60%. The FY99 and subsequent goals have been adjusted to reflect FY98 performance, and increased effort and resources required to make incremental increases as performance nears 90%.*

Increase Customer Satisfaction



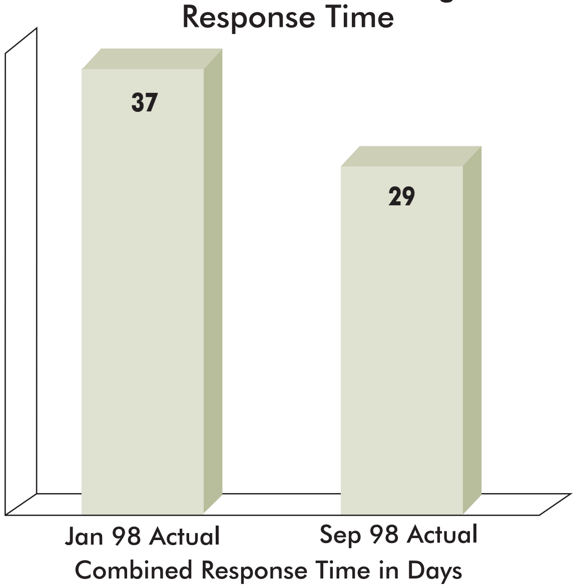
`Logistics Response Time (LRT) for Immediate Issues:` *The LRT performance measures support the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. Because integrated logistics support for consumable items includes support from both the inventory control points and the distribution depots, this metric reflects the number of days required to provide the integrated support of the Supply Management and Distribution business areas. DLSC has established a response time goal of 2 days for material issued immediately from inventory stocks, and actually experienced an average response time of 2.1 days. The goal represents the DLA time anticipated at the Inventory Control Point and Depot to process the requisition, package the items, and provide delivery to on-base or nearby sites. It is important to understand that the total response time experienced by the customer—from the time the user places an order until the time that the user receives the item—is 18 days for immediate issue items. The additional 16 days represents the average amount of time that the user organization takes to process and deliver the requisition to DLA and the time consumed for delivery of the item to the actual end-user after DLA ships it.*

Reduce DLSC Combined Logistics Response Time



`Logistics Response Time (LRT) for Total Pipeline (Immediate and Delayed Issues):` *Some orders, where requisitioned material is not immediately available from stock and must be backordered, are called delayed* issues. Delayed issues represent a significantly longer response time than immediate issues. DoD has targeted a 50% reduction in the response times for the combined immediate issues and delayed issues (total pipeline LRT) measured against the FY97 baseline of 36 days. This equates to a FY00 target response time of 18 days for the total pipeline, which includes immediate and delayed issues. DLSC is on target to meet the DoD FY00 goal. During FY98, total response time improved by 8 days. This improvement is attributed to an emphasis on improved ICP and depot processing, and a focus on each segment of the pipeline. DLA is focusing on implementation of more long-term contracts, direct vendor delivery, and establishing more prime vendor arrangements, which can allow for more rapid response for all items.

Reduce Total Combined Logistics Response Time

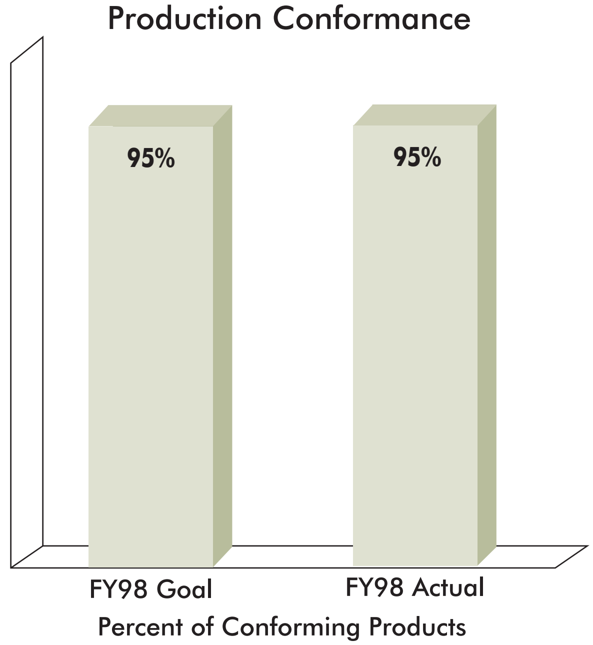


Response Times for Integrated Logistics/ Commercial Practices: *Consistent with providing responsive, best value supplies and services to our customers, DLSC satisfies many requisitions from commercial stocks rather than from inventory. As such, DLSC has established contractual agreements with commercial sources to supply items directly to the Military customers. Often, these arrangements allow the requiring activity to order material directly from the commercial supplier, within a negotiated time for delivery. This performance measure is somewhat different than the other LRT measures, in that the goal is to meet or exceed customer expectations, for which there is no specific numeric metric. If the provider meets the negotiated response time, and can deliver more rapidly than deliveries from DLA inventories, both the military customer and DLA experience lower overall costs, infrastructure investment and inventory costs. The following times represent the typical negotiated direct delivery contract requirements, or the actual experienced delivery times:*

Energy (Fuel):	100% on-demand availability
Subsistence (Food) and Medical Items:	2 days
Clothing and Other Textiles:	21 days
Hardware and Repair Parts:	23 days

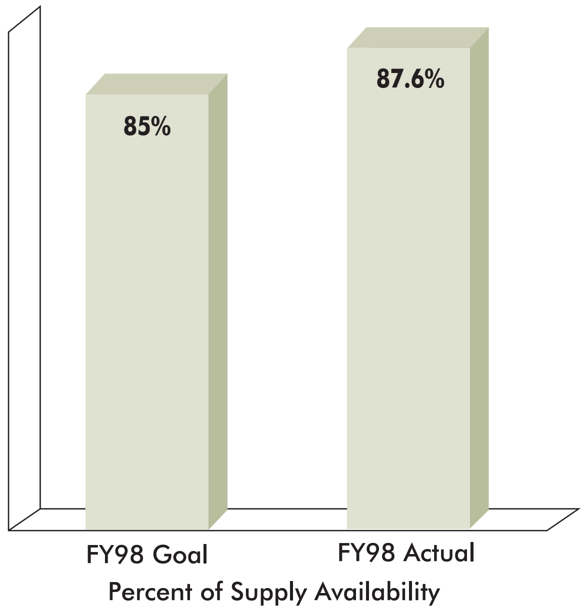
Product Conformance: *This measure directly supports the DLA Strategic Plan goal to consistently provide responsive, best value supplies and services to our customers. This measure reflects the number of National Stock Numbers (NSNs) that passed random testing for critical and major defects or characteristics, divided by the number of total NSNs tested. Currently this indicator applies to construction, electronics, industrial and general supplies. DLA has consistently achieved a product conformance result exceeding 90%. In FY98, DLA met the goal of 95%.*

Production Conformance



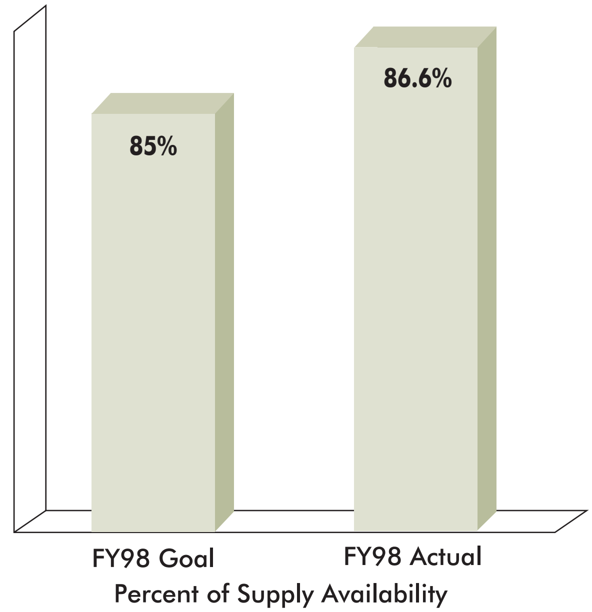
`Overall Supply Availability:` *This measure directly supports the DLA Strategic Plan goal to consistently provide responsive, best value supplies and services to our customers. This measure reflects the percentage of requisitions that are filled immediately from stock on hand, without interruption. DLA exceeded the FY98 goal of 85% by 2.6%.*

Increase Overall Supply Availability



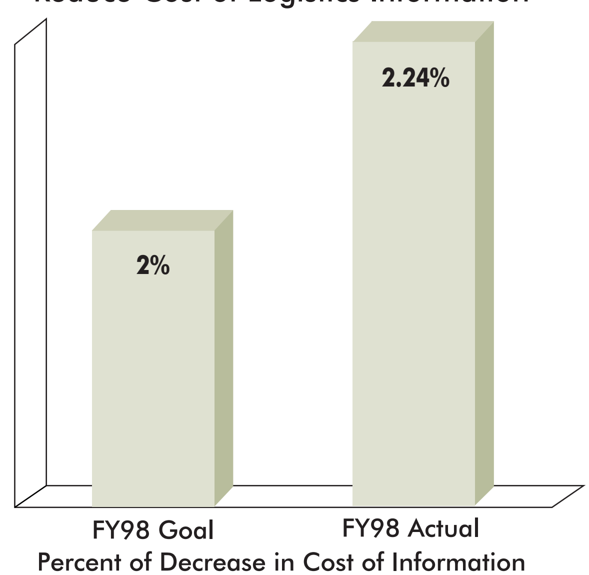
`Weapon Systems Supply Availability:` *This measure directly supports the DLA Strategic Plan goal to consistently provide responsive, best value supplies and services to our customers. In FY98, DLA exceeded the composite goal of 85% set by DLA for weapon system supply availability. However, the availability did not meet 85% for each Military Service. Low stocks of critical aviation supplies, for which DLA assumed management only recently, and the DLA focus on investing in fast-moving, lower-priced items, resulted in the Navy and Air Force supply availability averaging slightly below the 85% goal. DLA is focusing on replenishing aviation supply levels. Anticipated increases in FY99 funding authority will be used to improve aviation system supply performance for our Navy and Air Force customers. Overall, supply availability increased over FY97, resulting in a decrease of backordered items.*

Increase Weapon System Supply Availability



`Reduce Cost of Logistics Information:` *This measure directly supports the DLA Strategic Plan objective of reducing total costs to our customers. This metric reflects the reduction in the price that the Defense Logistics Information Service charges for logistics services and information products, which ultimately results in a lower price for consumable items. Examples of information products are supply chain-related training, extracts, and database and catalog updates.*

Reduce Cost of Logistics Information



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

Financial Performance Measures	*FY98 Goal*	*FY98 Actual*
Cost per Barrel of Fuel	*$ 25.87*	*$ 20.27*
Non-Energy Cost per Dollar of Sales	*$ .9600*	*$ .9594*

The Cost per Barrel of Fuel includes the acquisition cost of a barrel of fuel in addition to costs for fuel services, transportation, and overhead. The FY98 actual unit cost was lower than the FY98 goal due to product costs, which were substantially lower than initially planned. The non-Energy cost represents the acquisition value of material in addition to overhead and other support costs.

DLA Performance – Distribution

(This page intentionally left blank)

Overview

The Distribution business area is responsible for the receipt, storage, issue, packing, and preservation of consumable items, as well as delivery of materials from its warehouses to on-base or nearby customer sites such as ships, posts, and repair facilities. DLA also contracts with a variety of commercial sources to transport items from vendors or DLA's own warehouses direct to customers worldwide. The function includes distribution of items managed by DLA and items managed by the Military Services, which results in unique complexities associated with maintaining accountability for items owned by several components. In FY98, the Distribution business area executed 25.9 million transactions and managed nearly 266 million cubic feet of occupied storage space.

In FY98, the Distribution business area reduced overhead by consolidating regional control of the distribution depots in a single distribution activity called the Defense Distribution Center. The DDC manages 21 subordinate distribution depots throughout the Continental United States and Europe. In FY98, this business area generated revenues of nearly $1.4 billion and includes 12,140 personnel.

Mission

The mission of the Distribution business area is to ensure that consumable items under its control are provided to the Military Services worldwide at the right time, to the right place, and consistently at the best value in peacetime, emergency, and wartime scenarios. The Distribution mission integral part of providing integrated logistical support to the warfighters.

Goals

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

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

FY98 Accomplishments

- *World Wide Express (OCONUS Express Commercial Service): DLA, in partnership with the Air Mobility Command, established this multi-theater commercial contract, which will serve as a means to provide reliable, cost-effective International Express Delivery of small packages while also providing door pickup and delivery, customs clearance and in-transit visibility.*
- *Defense Distribution System and FedEx Powership Plus Interface: DLA and Federal Express formed a partnership to build an interface to electronically transmit shipment information for domestic small package express shipments. The depot benefits from processing time savings and the ability to print one label containing both military shipping labels and FedEx information/ barcodes.*

- *Overseas Destinations—Commercial Direct Delivery: This commercial express service ships directly from the Defense Depots to the overseas customer, and avoid delays at intermodal transportation nodes. With the agreement of TRANSCOM, DLA uses three commercial contractors to ship high-priority items directly to the overseas customer.*

- *Premium Service: This service has Federal Express fly low volume but readiness-critical items from a central warehouse in Memphis, TN to anywhere in the United States in 24-hours, and anywhere in the world in 48 hours when expedited delivery is necessary. During 1998, we shipped 174,180 issues and received 11,233 return receipts using this service.*

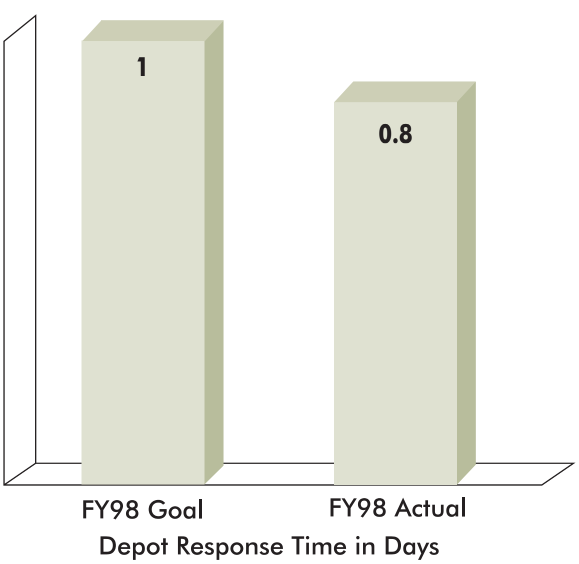
- *Vice President Al Gore's National Partnership for Reinventing Government (NPR) recognized the success of the Distribution Standard System with a Hammer Award. DLA developed and implemented a single distribution system at all DoD distribution depots. Previously, the Agency and each of the Military Services operated supply depots using different systems, which made changes and improvements to depot operations difficult and expensive. Instead of developing a new system, DLA reviewed existing DoD systems and selected one which could be modified and enhanced to best meet DoD needs at the lowest cost. The Distribution Standard System brings many business process improvements, such as inventory accuracy and workload planning.*

Performance Measures

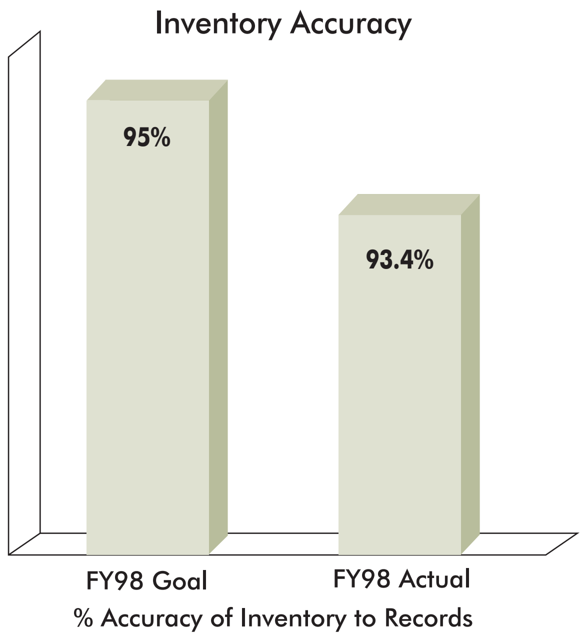
The following performance measures are in direct support of the DLA Strategic Plan goals. The program and financial performance measures that best support the business activity goals and near-term objectives are:

Depot Logistics Response Time: *This measure directly supports the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. The Distribution Business area has established a goal of less than or equal to one day for both high-priority immediate issues and routine issues from stock. This measures the average number of days to process a customer order or requisition, from the time the order is received at the depot to the date the material is shipped. In FY98, the business area achieved a response time of .6 days for high priority issues and a weighted actual response time of .8 days for combined high priority and routine issues.*

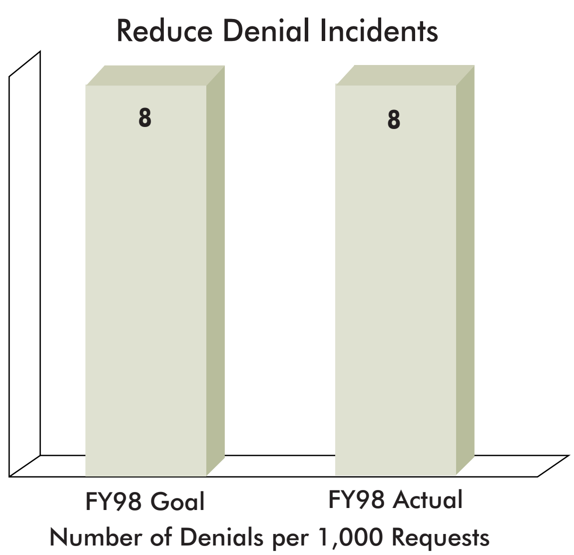
Reduce Depot Logistics Response Time
Immediate Issues



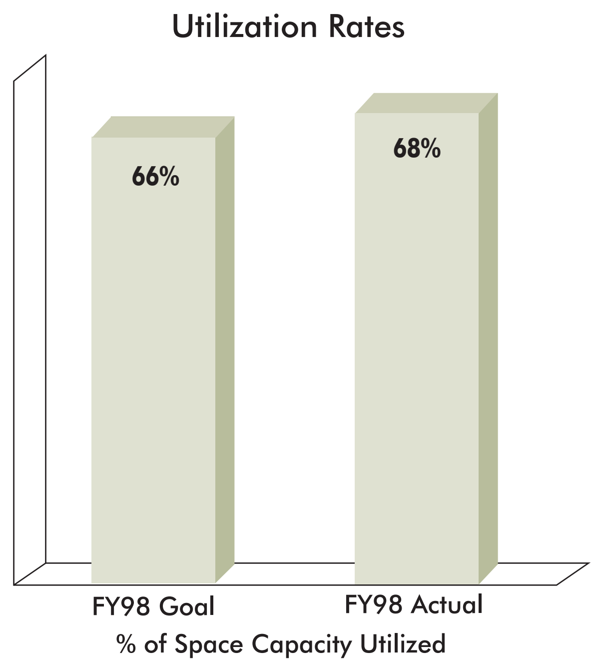
Sample Inventory Accuracy: *This measure directly supports the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. This measure reflects the accuracy of inventory records using statistical sampling to determine whether physical counts match recorded balances at the depots. Random samples are taken and accuracy is measured semi-annually. Because the former Navy depots had different sampling capabilities than the depots using the Distribution Standard System (DSS), two systems were used to measure inventory accuracy in FY98 and therefore, it is not possible to combine the statistical results in a meaningful manner. The results from each system were 81.0% and 93.4%. The sampling* plan used at former Navy depots had discrete item category sampling capabilities. In FY99 we plan to incorporate similar features into the Distribution Standard System, which permits better inventory management.



`Denials:` *This measure also directly supports the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. This metric measures denial incidents per 1000 requests for issues. A denial incident occurs when an item recorded on the inventory records is not on-hand or cannot be located and made available for issue to a customer.*



`Infrastructure Reduction:` *The Distribution business area, in an effort to reduce infrastructure costs, measures storage capacity and occupancy to identify improvements in space utilization rates and eliminate unnecessary space. The goal of increasing space utilization ties directly to the DLA Strategic Plan goal to serve as a catalyst in business affairs and acquisition reform, and the objective to reduce overall infrastructure. In FY98, the planned space utilization rate of 66% was exceeded by 2%.*



`Financial Performance Measures:` *In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Distribution unit cost results for each of their receipt and issue categories:*

Financial Performance Measures	*FY98 Goal*	*FY98 Actual*
Bin Receipts	*$ 21.84*	*$ 21.87*
Medium Bulk Receipt	*$ 36.15*	*$ 34.94*
Hazardous/Heavy Bulk Receipts	*$ 56.30*	*$ 56.56*
Bin Issues On Base	*$ 12.95*	*$ 12.59*
Bin Issues Off Base	*$ 16.63*	*$ 17.71*
Medium Bulk Issues On Base	*$ 27.86*	*$ 26.19*
Medium Bulk Issues Off Base	*$ 36.12*	*$ 38.62*
Haz/Heave Bulk Issues On Base	*$ 52.49*	*$ 49.60*
Haz/Heave Bulk Issues Off Base	*$101.56*	*$109.07*

Financial Performance Measures	*FY98 Goal*	*FY98 Actual*
Transshipments	*$ 4.61*	*$ 5.23*
Unit Cost – Total	*$ 24.94*	*$ 25.78*
Unit Cost – Covered Storage	*$ 7.89*	*$ 6.31*

In FY98, costs for off-base issues and transshipments were higher than projected, and the workload for all outputs was lower than expected. These factors resulted in a total unit cost that exceeded the goal by $0.84.

DLA Performance – Reutilization & Marketing Service

(This page intentionally left blank)

Overview

The Defense Reutilization and Marketing Service (DRMS) coordinates the reuse of excess and surplus property for the Department of Defense and other authorized agencies. Items that are not reutilized within DoD are screened for possible transfer to other Federal agencies, or for donation to local governments. Surplus property that cannot be reutilized is offered for sale to the public on a competitive basis. DRMS also oversees the disposal of remaining property and hazardous waste items through sales and contractual vehicles.

Command and control of the DRMS mission is accomplished from the headquarters organization in Battle Creek, MI. The mission is accomplished through Defense Reutilization and Marketing Offices (DRMOs) located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess materiel for screening, lot categorization, merchandising, and sale. The FY 1998 mission was performed with just under 3,300 personnel and generated revenues of $590M. A significant portion of the FY 1998 revenues resulted from a $351 million Service Level Billing effected to recoup prior year losses in DRMS.

Mission

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

Goals

The long-term goals of the Reutilization and Marketing business area are consistent with the goals contained in the DLA Strategic Plan. These goals are achieved through a series of supporting objectives and initiatives designed to improve and reengineer business practices to ensure efficiency, effectiveness, and best value costing.

FY 1998 Accomplishments

- *Commercial Venture: In 1998, the Defense Reutilization and Marketing Service awarded its first commercial venture contract, which provides the contractor with exclusive rights to purchase property consisting of machine tools, bearings, service trade equipment, warehouse equipment, electronics, hardware, marine, railroad and construction equipment. The contractor purchases the property and can resell it using private sector sales processes. Upon resale, 80% of proceeds will be returned to DRMS and 20% to the contractor. This partnership with private industry is expected to increase sales revenue and reduce costs. The results of this first commercial venture will be analyzed to determine award of additional contracts for other types of commodities.*

- *Recycling Control Point (RCP): Under this initiative, disposal property is "received" into a Recycling Control Point account via an* *electronic transaction with the actual property remaining in place on the Defense Depot shelves. RCP automates the screening and sales process via the DRMS Internet World Wide Web Site and property moves from the depot only when directed by DRMS for shipment to ultimate customer. This decreases costs through reduced physical handling and movements, and improves accountability.*

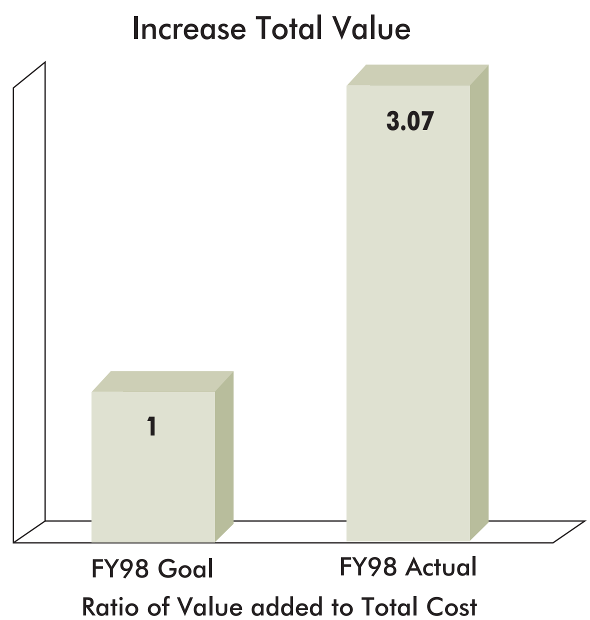
- *Foreign Military Sales – The Defense Reutilization and Marketing Service created a foreign military sales (FMS) Web site that allows access to a searchable and sortable database. FMS customers can search the inventory by National Stock Number, item name, weapon system, and geographical location to obtain descriptive data. Photos are also available for some items. The program manager received one of ten Outstanding Defense Logistics Agency Employee of the Year awards for these efforts.*

Performance Measures

There are limited performance measures presented for DRMS for FY98. During FY98, DRMS began to develop additional program performance measures that are in direct support of the DLA Strategic Plan. Those additional performance measures will be in effect during FY99 and reported in the Statements accordingly.

Total Value: *This measure directly supports the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. The Total Value ratio identifies the total value of the services provided by DRMS in terms of reutilization, transfers, sales, and the resulting cost avoidance, as compared to the cost to provide the services. For example, the current ratio of 1:3.07 means that the Defense Reutilization and Marketing Service provides a benefit to DoD that is three times greater than costs.*

In FY98, DRMS transferred, or donated over $5 billion in items, based on latest acquisition value. This $5 billion represents cost avoidance to DoD, Federal, and State customers, and is achieved at a cost of $ .013 on the dollar of acquisition value. For the fifth year in a row, DRMS has reduced customer costs in the hazardous waste disposal area, using innovative contracting techniques, improved automation and improved hazardous waste management and identification. In FY98, the average disposal cost declined from $ .27 per pound to $ .22 per pound. Additionally in FY98, a longstanding $18 million backlog in customer reimbursements was eliminated and new procedures were developed and implemented to ensure that all reimbursements are made in a timely manner.



(NOTE: Total value is derived by adding: projected revenue from scrap sales, usable sales, FMS sales, precious metals, a credit for full acquisition value of serviceable reutilization requests, a cost savings credit for dispositions minus reutilization calculated at 2.5% of acquisition value, plus a cost avoidance credit for HM reutilization, transferred, donated or sold in lieu of ultimate disposal.)

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

Financial Performance Measures	*FY98 Goal*	*FY98 Actual*
Cost/Dollar of Acquisition Value		
- Reutilization/Transfer/Donation	*$0.01496*	*$0.01296*
Cost/Dollar of Sales Proceeds	*$1.0551*	*$1.0125*
Cost/Pound - Ultimate Disposal	*$0.195*	*$0.185*
Cost/Line - Abandonment and Destruction	*$293.72*	*$241.53*

Beginning in FY98, DRMS was measured on four unit cost goals, as opposed to two in FY97. The Sales Proceeds and Abandonment & Destruction goals were established, and Hazardous Disposal was renamed as Ultimate Disposal and the output measure was changed from lines to pounds. FY 1998 performance for Abandonment & Destruction was significantly below the unit cost goal. This was a new goal in FY 1998 and actual workload was lower than planned. This goal represents the most expensive effort performed by DRMS, but also represents the least amount of workload (less than 2%). This makes the workload goal difficult to project, but results in minimal impact on total costs.

(This page intentionally left blank)

DLA Performance – Information Services

(This page intentionally left blank)

Overview

The Information Services business area serves as a primary provider of integrated information management support. This support is provided by the Defense Automatic Addressing System Center (DAASC) located in Dayton, OH and Tracy, CA, and the DLA System Design Center (DSDC) headquartered in Columbus, OH and supported by eight geographically dispersed satellite sites. In FY98 the Information Services business area consisted of approximately 1,100 employees with revenues of $104.8 million. Non-DLA customers accounted for 23% of the FY98 revenue.

Mission

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

Goals

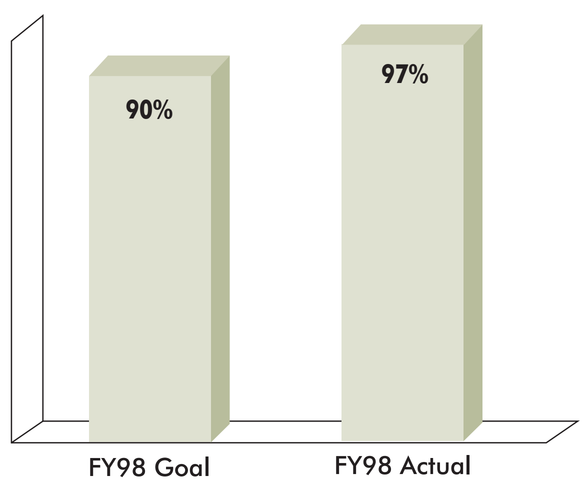
The success of the Information Services business area is largely determined by the satisfaction of its customers. DSDC's primary goal is to provide consistently responsive, best value supplies and services to its customers. Accomplishment of this goal is achieved through improved productivity, quality,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

Another, extremely critical goal for the Information Services business area is to ensure that all DSDC-supported Information Systems are compliant for Year 2000. DSDC has developed a number of important objectives in this area to include: complete remediation of DSDC supported business systems, complete transition to the OS/390 operating environment and full integration testing of all Y2K supported software.

Performance Measures

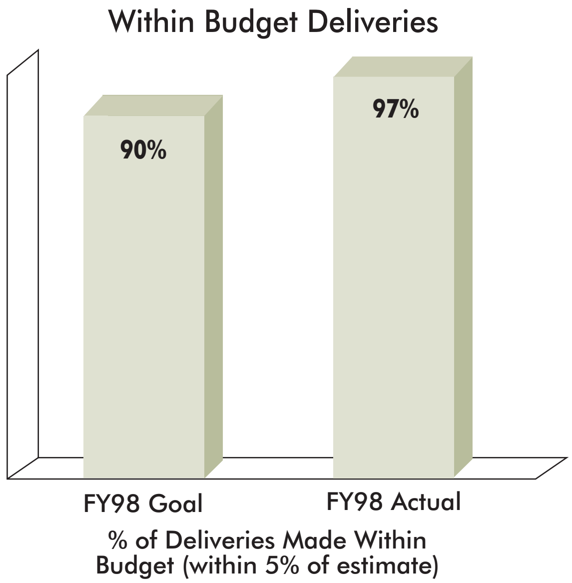
On-Time Delivery Rate: *This measure relates directly to the DLA Strategic Plan goal of providing responsive, best value supplies and services to our customers. It also has a direct relationship to customer satisfaction. This measure reflects the percentage of time that projects are delivered to the customer within 5% of the originally scheduled or re-baselined estimated time for completion. It is used by management to determine DSDC's ability to forecast project efforts.*

On-Time Deliveries

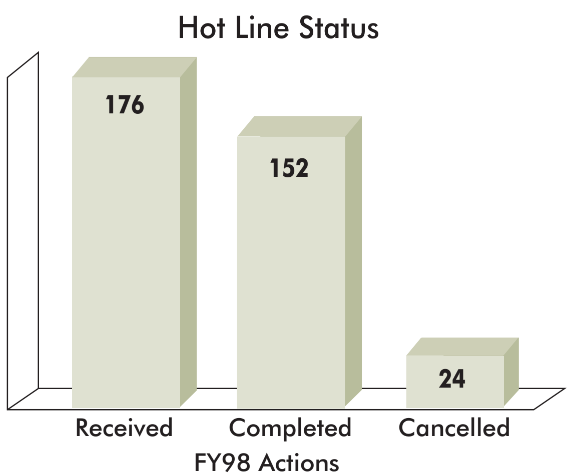


% of Deliveries Made On-Time
(within 5% of estimate)

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



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



`Financial Performance Measures:` *The following table depicts the FY98 unit cost goal and actual for the DLA Systems Design Center (DSDC):*

Financial Performance Measure	*FY98 Goal*	*FY98 Actual*
Unit Cost Rate	*$57.24*	*$62.72*

DSDC exceeded their unit cost goal in FY98 because the goal for billable productive hours was not met. The productive hour plan included an initiative to leverage general and administrative and indirect assets in FY98 to support billable productive hours, which was not fully achieved.

DLA Performance – Automated Printing Service

(This page intentionally left blank)

Overview

The Defense Automated Printing Service (DAPS) is responsible for the Department of Defense (DoD) printing program and document automation encompassing value-added conversion, electronic storage and output and the distribution of hard copy and digital information. All DoD printing requirements, whether produced in-house or procured through the Government Printing Office (GPO), are forwarded to DAPS to ensure compliance with DoD Directives and the Federal Printing Program. The Congressional Joint Committee on Printing exercises oversight of all federal printing including the DAPS in-house printing capability.

DAPS manages a worldwide printing, duplicating, and document automation production and procurement network. The DAPS Corporate Support Team is located at Ft Belvoir, Virginia with 80 major field locations and 238 smaller document automation facilities located in 12 countries. Approximately 1,900 civilian personnel support the DAPS mission. DAPS had FY98 revenue of $377.8 million. DAPS's primary customers are Army (21.8%), Navy (31.1%), Air Force (16.2%), Defense agencies (22.7%), and non-DoD customers (8.2 %).

Mission

The Defense Automated Printing Service provides automated printing services world-wide in support of America's Armed Forces, encompassing electronic conversion, retrieval, output, and distribution of digital and hardcopy information. DAPS provides quality products and services that are competitively priced and delivered on time to their customers.

DAPS is the recognized leader in document automation and the customer-preferred provider of best value automated digital and hardcopy information products and services. DAPS is dedicated to the transition form paper to electronic-based document management, and is an integral part of the Department of Defense plan to transition into the age of electronic documents and business practices.

Goals

The long-term goals of the Automated Printing Service business area are consistent with the goals contained in the DLA Strategic Plan. These goals will be achieved through a series of supporting objectives. Some of the primary objectives planned for implementation by FY00 are:

- *Design the organization with the minimum personnel and infrastructure to effectively execute it mission. This includes determining the DAPS Most Efficient Organization and developing a plan for reducing costs, as well as benchmarking our products and services against the best in private industry.*

- *Maintain a constant focus on our commitment as a customer driven organization. This includes meeting or exceeding customer delivery requirements and the customer satisfaction metric, as well as effectively inform all customers of DAPS products and services.*

- *Promote the full portfolio of document automation services to our customers. This includes marketing plans to promote digital services, the Department Product Line, and improving the technical expert image of DAPS.*

- *Build Team 2000 Skills. This objective includes meeting the DLA Strategic Plan goal of establishing Individual Development Plans for all DAPS employees by the end of FY99, and investing at least 1.5% of gross payroll costs in training.*

- *Partner with government to improve synergistic relationships. This includes partnering with the Government Printing Office to outline roles and relationships, and ensure that DoD customers receive the best value.*
- *Develop and implement a "DAPS At The Desktop Strategy" to connect customers to DAPS sites. This includes implementing the DAPS Information Technology plan and Network Strategy.*

FY98 Accomplishments

- *Vice President Al Gore's National Partnership for Reinventing Government (NPR) recognized the DAPS effort for changing a labor-intensive process for recording Government Bills of Lading to an automated system with a Hammer Award. This effort resulted in increased accuracy and timeliness of obligation data: electronic storage and data retrieval where the invoices were paid, reduced late payment penalties, increased visibility of transportation payments, and reduced requirements for paper.*

- *Implementation of the Defense Working Capital Accounting System (DWAS) was completed. DWAS is the first commercial off-the-shelf DoD migratory accounting system and the first to fully implement the U.S. Government Standard General Ledger.*

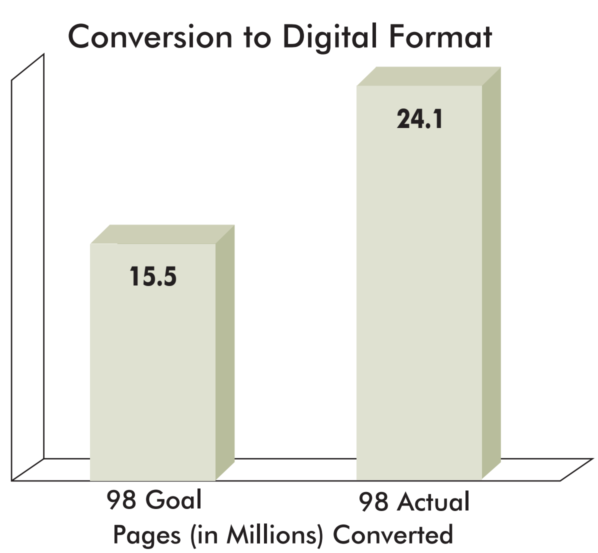
- *DLA signed a DoD/GSA Partnering Agreement for DAPS to provide document automation services to GSA and other federal agencies. GSA's ten remaining duplicating centers were transferred to DAPS, which is estimated to result in $4.3 million in annual savings to the federal government.*

- *Using an extended GSA contract with major equipment manufacturers, DAPS is now offering the Multi-Functional Device (MFD), which can simultaneously deliver at least two of the following functions: print, copy, scan, and fax. Successful partnering in the Cost-Per-Copy Program and the new Group Connection Program (MFDs) will result in savings between 5 to 35 percent to the customers.*

- *DAPS is continuing to accelerate the acceptance of the universal I.M.P.A.C. for intra-government sales, which has significantly increased accessibility of its products and services with the card. DAPS transactions number over 130 thousand, worth $48 million, with savings estimated at $70-92 per transaction.*

Performance Measures

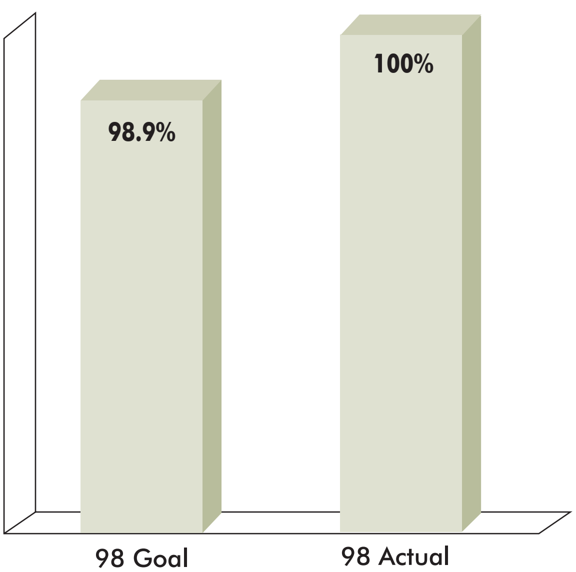
Conversion to Digital Format: *This goal is tied to the DLA Strategic Plan goal to serve as a catalyst for the revolution in business affairs and acquisition reform. DAPS measures the number of pages (in millions) converted to digital format. This measure focuses on accelerating the use of document automation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



`Customer Satisfaction:` *This metric ties to the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. DAPS uses a survey of a statistical sampling of customers to determine an overall customer satisfaction rating. Satisfied customers are measured by the percentage of customers ranking DAPS performance from acceptable through high quality. The survey was last conducted during FY96 and another survey is planned for FY99 with a goal of 90% overall customer satisfaction.*

`Production Efficiency Factor:` *This metric ties to the DLA Strategic Plan goal of consistently providing responsive, best value supplies and services to our customers. Production standards are established for each production process and are stated in terms of units produced per hour. The units are converted to standard hours earned. Employee time is captured by cost center as hours available. The employee hours available are divided into the hours earned to produce the production efficiency factor shown as a percentage. DAPS performed slightly under the FY98 goal, largely due to lower than expected sales.*

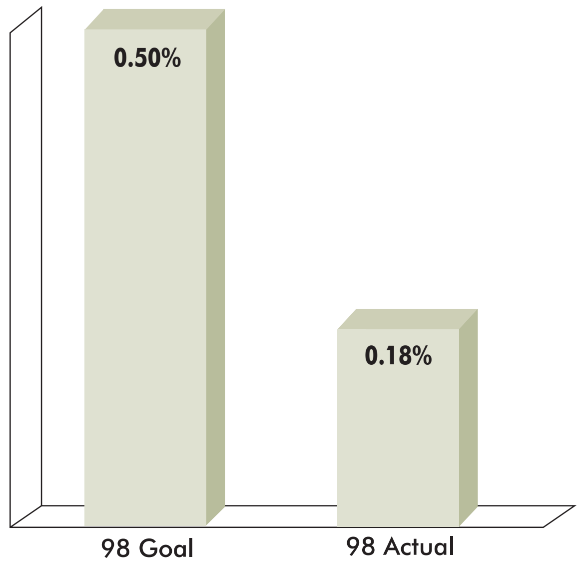
Production Efficiency



% of Units Produced per Employee Hour

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

In-House Rework



% of Revenue Lost Due to Rework Requirement

`Financial Performance Measures:` *In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with unit cost performance measures. The following table depicts the Automated Printing Service unit cost results for each of their support categories:*

Financial Performance Measures	*FY98 Goal*	*FY98 Actual*
Cost per Offset Press Unit	*$0.0402*	*$0.0363*
Cost per Electronic Impression	*$0.0299*	*$0.0324*
Reproduction (Cost per Running Feet)	*$0.3346*	*$0.2880*

(This page intentionally left blank)

Management's Discussion and Analysis of the Financial Statements

(This page intentionally left blank)

Introduction, Purpose and Limitations of Financial Statements

These financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. 31 U.S.C. 3515(b).

These financial statements include all of the DLA Working Capital Fund activities and associated budget authority. These statements have been prepared from the books and records of the Defense Logistics Agency, in accordance with the formats prescribed by the Office of Management Budget (OMB) Bulletin 97-01,"Form and Content of Agency Financial Statements." These statements are reconciled to the budgetary reports which are prepared from the same books and records, but on a different basis of accounting, – the same basis as the President's budget, rather than in accordance with the Generally Accepted Accounting Principals (GAAP).

The statements should be read with the realization that they are for an Agency of the U.S. Government, a sovereign entity. Intra-governmental assets and liabilities are those with other Federal Agencies. For example, DLA's Fund Balance is held by the U.S. Treasury Department, another Federal agency. DLA has no authority to pay liabilities not covered by its budgetary limitations. Liquidation of such liabilities requires enactment of an appropriation. Because the U.S. Government is a sovereign entity, certain liabilities, other than that for contracts, can be abrogated by new legislation.

The FY98 financial statements were developed in conformance with the Federal hierarchy of accounting guidance. In that regard, DLA used published Statements of Federal Financial Accounting Standards, OMB Form and Content Guidance, and the Department of Defense Financial Management Regulation.

Discussion and Analysis of Fiscal Year Operations and Financial Condition

The DLA DWCF business areas ended FY98 with total adjusted program costs of $14.0 billion, and earned revenues of $14.3 billion, for a net cost of operations of $267 million. The positive net operating result was due in large part to the lower than expected price of fuel in the Supply business area, and the effect of a Service Level Billing to recover prior year losses in DRMS. The non-energy segment of the Supply Management business area, as well as the Distribution, Information Services and Automated Printing Services business areas, experienced losses in FY98. These losses are budgeted for recovery in FY99 and FY00.

Some significant management initiatives were factored into the financial planning for FY98 and ultimately affected the financial results. The Consumable Item Transfer, which is the DoD directed transfer of management of consumable items from the Military Services to the Defense Logistics Agency, continued in FY98. During the year, DLA received over 23,000 items and capitalized over $700 million in inventory at standard cost. The transfer resulted in an increase in cash balances for the Defense-wide Working Capital Fund cash account, as DLA sold the transferred material that was initially purchased by the Military Services. To adjust for this impact, DLA made non-expenditure cash transfers of $569.1 million to the appropriate Military Services during FY98. The transfer of consumable items ends in FY99.

In FY98, 28 Defense Reutilization and Marketing Offices in the continental United States were closed in order to properly size the disposal infrastructure to match current workload volume and dispersion. DRMS negotiated mutually satisfactory arrangements with affected customers for providing disposal services after the closures. FY98 also marked completion of the second phase of a 25% reduction in DRMS headquarters overhead positions. A total of 101 positions were eliminated within the headquarters overhead *structure through consolidation, realignment, and reengineering efforts.*

The Agency continued the directed consolidation of distribution depots, resulting in reduced infrastructure costs. The streamlining of overhead operations at the Defense Distribution Center in FY98 resulted in a reduction of 355 full time equivalent personnel. These reductions will save $16 million in FY99 and are projected to save a total of $34 million in operations costs by FY00.

In FY98, both the Distribution and Reutilization and Marketing Service business areas began the process of competitive sourcing three distribution depots and ten Defense Reutilization and Marketing Offices (DRMOs) respectively. This process compares the government's Most Efficient Organization cost of logistics processes against private sector bids to perform the same services. If the private contractor proposal is at least 10% lower than the government cost, the functions are contracted out. The initial competitions will take approximately two years to complete, and it is anticipated that 13 additional depots and 58 additional DRMOs will be competed by the end of FY00.

Cost visibility across the Department has been a concern for a number of years. To gain additional visibility of cost and pricing structures, the Department of Defense has increased the emphasis on the use of Activity Based Costing (ABC). ABC provides detailed cost visibility, which can assist management in making decisions regarding streamlining of operations, as well as eliminate activity fragmentation. Pilot programs have been successfully completed at Defense Supply Center Columbus, Defense Logistics Information Service, Defense Distribution Depot Susquehanna, and Defense Reutilization and Marketing Services. Plans are to expand Activity Based Costing to all DLSC support activities by the end of Calendar Year 1999.

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, DLA has conducted an evaluation of the management control systems. One of the objectives of the system of internal accounting is to provide reasonable assurance that the revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. The results of the review indicate that the DLA internal accounting and administrative control systems in effect during FY98 are operating effectively. Material weaknesses were identified and reported in DLA's FY98 Annual Statement of Assurance, and corrective action plans have been developed and are currently being implemented. This review encompassed the operating accounting systems, as defined by the General Accounting Office (GAO), and was performed by the Defense Finance and Accounting Service. DLA has seven operating accounting systems, with one of the seven systems considered substantially in compliance with the GAO accounting principles, standards, and related requirements. The remaining six accounting systems contain one or more major nonconformance which preclude certification that the system is in substantial compliance with GAO guidelines. Those material nonconformances are also reported in the DLA Annual Statement of assurance. In any case, where an identified material weakness or nonconformance impacts the accounts reported in these Statements, it is annotated in the footnotes and/or the Management Representation Letter.

Principal Financial Statements

Defense Logistics Agency - Defense Working Capital Fund

(This page intentionally left blank)

The accompanying notes are an integral part of these financial statements.

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidated Balance Sheet
As of September 30, 1998
(Dollars Rounded to Thousands)

ASSETS	
Entity Assets	
Intragovernmental	
Fund Balance With Treasury (Note 2)	$ 572,810
Accounts Receivable, Net (Note 3)	770,451
Total Intragovernmental	1,343,261
Accounts Receivable, Net (Note 3)	92,825
Inventory and Related Property, Net (Note 5)	9,756,123
General Property, Plant and Equipment, Net (Note 6)	753,167
Other (Note 4)	720,422
Total Entity Assets	12,665,798
Non-Entity Assets	
Other (Note 4)	83,307
Total Non-Entity Assets	83,307
Total Assets	**$ 12,749,105**
LIABILITIES	
Liabilities Covered by Budgetary Resources	
Intragovernmental Liabilities	
Accounts Payable (Note 16)	$ 440,873
Other (Note 7 and 9)	204,465
Total Intragovernmental	645,338
Accounts Payable (Note 16)	778,534
Other (Note 7 and 9)	125,897
Total Liabilities Covered by Budgetary Resources	1,549,769
Liabilities not Covered by Budgetary Resources	
Military Retirement Benefits and Other Employment Related Actuarial Liabilities (Note 8)	209,487
Total Liabilities not Covered by Budgetary Resources	209,487
Total Liabilities	**1,759,256**
NET POSITION	
Cumulative Results of Operations	10,989,849
Total Net Position	**10,989,849**
Total Liabilities and Net Position	**$ 12,749,105**

The accompanying notes are an integral part of these financial statements.

(This page intentionally left blank)

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidated Statement of Net Cost
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

Program Costs	
Intragovernmental	*$ 4,674,561*
With the Public	*9,354,854*
Total Program Cost	*14,029,415*
Less: Earned Revenues	*(14,296,889)*
Net Program Costs	*(267,474)*
Deferred Maintenance (Note 11)	*–*
Net Cost Of Operations	***$ (267,474)***

Additional information included in Note 10.

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidating Statement of Net Cost
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

	Supply Management	Distribution	Reutilization and Marketing Service
Program Costs			
Intragovernmental	$ 4,380,650	$ 657,429	$ 229,916
With the Public	8,287,723	840,237	123,800
Total Program Cost	12,668,373	1,497,666	353,716
Less: Earned Revenues	(13,026,799)	(1,395,438)	(589,676)
Net Program Costs	(358,426)	102,228	(235,960)
Deferred Maintenance (Note 11)	–	–	–
Net Cost Of Operations	**$ (358,426)**	**$ 102,228**	**$ (235,960)**

Additional information included in Note 10.

The accompanying notes are an integral part of these financial statements.

Information Service	Automated Printing Service	Combined	Eliminations and Adjustments	Consolidated
$ 34,320	$ 379,335	$ 5,681,650	$ (1,007,089)	$ 4,674,561
77,433	7,400	9,336,593	18,261	9,354,854
111,753	386,735	15,018,243	(988,828)	14,029,415
(104,809)	(377,773)	(15,494,495)	1,197,606	(14,296,889)
6,944	8,962	(476,252)	208,778	(267,474)
–	–	–	–	–
$ 6,944	**$ 8,962**	**$ (476,252)**	**$ 208,778**	**$ (267,474)**

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidated Statement of Changes in Net Position
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

Net Cost of Operations	**$ (267,474)**
Financing Sources (Other than Exchange Revenues)	
Imputed Financing	190,517
Transfers-In	1,565,121
Transfers-Out	(1,386,436)
Net Results of Operations	636,676
Prior Period Adjustments (Note 12)	267,434
Net Change in Cumulative Results of Operations	904,110
Increase in Unexpended Appropriations	15,332
Change in Net Position	919,442
Net Position-Beginning of the Period	10,070,407
Net Position-End of Period	**$ 10,989,849**

Additional information included in Note 12.

The accompanying notes are an integral part of these financial statements.

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Combined Statement of Budgetary Resources
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

BUDGETARY RESOURCES	
Budgetary Authority	$ 14,665
Unobligated Balances – Beginning of Period	(393,170)
Net Transfers Prior-Year Balance, Actual (+/-)	1,501
Spending Authority from Offsetting Collections	15,049,695
Adjustments	(1,298,652)
Total Budgetary Resources	13,374,039
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	13,446,405
Unobligated Balances – Available	(72,366)
Total Status of Budgetary Resources	13,374,039
OUTLAYS	
Obligations Incurred	13,446,405
Less: Spending Authority from Offsetting Collections and Adjustments	(15,050,734)
Obligated Balance, Net – Beginning of Period	4,764,732
Obligated Balance Transferred, Net	(1,501)
Less: Obligated Balance, Net – End of Period	(4,572,350)
Total Outlays	$ (1,413,448)

Additional information included in Note 13.

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Combined Statement of Financing
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	$ 13,446,405
Less: Spending Authority for Offsetting Collections and Adjustments	(15,050,733)
Financing Imputed for Cost Subsidies	190,517
Net Transfers-In	178,685
Total Obligations as Adjusted and Nonbudgetary Resources	(1,235,126)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	
Change in Amount of Goods, Services, and Benefits Ordered but not Yet Received or Provided	284,078
Costs Capitalized on the Balance Sheet	163,530
Financing Sources That Fund Costs of Prior Periods	307,989
Other	(185,349)
Total Resources That Do not Fund Net Costs of Operations	570,248
COSTS THAT DO NOT REQUIRE RESOURCES	
Depreciation and Amortization	114,950
Other	(10,528)
Total Costs That Do Not Require Resources	104,422
Financing Sources Yet to Be Provided	292,982
Net Costs of Operations	***$ (267,474)***

Additional Information included in Note 14.

The accompanying notes are an integral part of these financial statements.

Notes to the Principal Financial Statements

Defense Logistics Agency - Defense Working Capital Fund

(This page intentionally left blank)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Defense Logistics Agency (DLA), as required by the Chief Financial Officers (CFO) Act of 1990 expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The report has also been prepared to provide information with which Congress, agency managers, the public, and other interested parties can assess management performance stewardship. They have been prepared from the accounting records of DLA in accordance with the Federal Accounting Standards Advisory Board (FASAB), DoD Financial Management Regulations (FMR), including Volume 6B, as adopted from the Office of Management and Budget (OMB) Bulletin No.97-01, "Form and Content of Agency Financial Statements." To the extent that guidance is not provided by one of these standards, DLA accounts for transactions in accordance with guidance promulgated by the General Accounting Office (GAO), Department of Treasury and Generally Accepted Accounting Principles (GAAP). These statements differ from the DLA financial reports prepared to monitor and control the use of budgetary resources. Amounts presented are rounded to the nearest thousand unless otherwise noted.

Reporting Entity

The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the Department of Defense (DoD). The primary focus of DLA is to provide logistics support to the warfighter. In addition, DLA provides support to relief efforts during times of national emergency. Fiscal year 1998 represents the first year that DLA will prepare and provide Defense Working Capital Fund stand-alone financial statements as required by the CFO Act and the GMRA.

The accounts used to prepare the statements are classified as entity/nonentity. Entity accounts consist of resources that the agency has the authority to decide how to use, where management is legally obligated to use funds to meet entity obligations. Non-entity accounts are assets that are held by an entity but are not available for use in operations. The DLA organization has five active entity sub-organizations funded through the Defense Working Capital Fund (DWCF). These sub-organizations are refered to herein as business areas and are as follows:

The <u>Supply Management Business Area</u> (Supply) helps carry out this mission by procuring, managing and supplying over three billion consumable items to Military Departments, other DoD components, Federal agencies and selected foreign governments. The appropriation symbol is 97X4930.005C.

The <u>Distribution Business Area</u> (Distribution) receives, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments and other DoD components, Federal agencies, and selective foreign governments. The appropriation symbol is 97X4930.005B.

The <u>Reutilization and Marketing Service Business Area</u> (DRMS) provides reutilization services which include receiving, classifying, segregating, demilitarizing, accounting for and reporting excess materiel for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal-bearing materiel. The appropriation symbol is 97X4930.005N.

The <u>Information Services Business Area</u> provides information management support. The appropriation symbol is 97X4930.005F5.

The <u>Automated Printing Service Business Area</u> (DAPS) is responsible for document automation and printing within the Department of Defense, encompassing electronic conversion, retrieval, output and distribution of digital and hardcopy. The appropriation symbol is 97X4930.005G.

The accompanying audited financial statements account for all funds for which DLA is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that is no longer classified. The audited financial statements are presented on the accrual basis of accounting as required by DoD accounting policies.

Budgets and Budgetary Accounting

The Department of Defense expanded the use of business-like financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. On December 11, 1996, the DBOF became the Defense Working Capital Fund (DWCF). The DWCF operates with financial *principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The DWCF is built on revolving fund principles previously used for industrial and commercial-type activities. The Department of Defense's Working Capital Fund includes industrial and commercial type transactions. These activities provide supplies and inventories to Department organizations on a commercial basis. Receipts derived from resale operations are normally available in their entirety for use without further congressional action.*

Each Business Area receives an Annual Operating Budget (AOB) in unit cost terms. Unit Cost Resourcing provides the operating expense authority/ cost authority for such items as salaries, non-labor expenses, and materiel within each activity. Cost authority or the amount "earned" depends on the actual workload times the unit cost goals. Each Business Area can also receive reimbursable authority for outputs/goods and services that are not contained in the unit cost goals. Host support for a tenant is an example.

Business Areas may also receive a capital budget that provides the obligation authority for the purchase of equipment, minor construction, information technology and telecommunications, and software development.

Basis of Accounting

Transactions are recorded on an accrual basis and on a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal and internal constraints and controls over the use of Federal funds. All known DLA intrafund balances have been eliminated. All other intrafund balances attributable to Other Federal entities have been identified in Note 15.

Revenues and Other Financing Sources

Exchange revenue is recognized at the point the rendered service is completed and billed, or at the point inventory items are sold. Certain Distribution activity group revenues are recognized based on the actual workload for the period. These revenues may be billed up to two months after work is performed. These financial statements include an adjustment to accrue for these billings.

Accounting for Intragovernmental Activities

DLA, as an agency of the Federal government, interacts with, and is dependent upon, other financial activities of the government as a whole. As a result, these financial statements do not reflect the results of all financial decisions applicable to DLA as though the agency were a stand-alone entity.

1. *DLA's proportionate share of the public debt and related expenses of the Federal Government are not included in these financial statements because debt and related interest costs are not apportioned to Federal agencies. The DLA's financial statements therefore do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.*

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

3. *DLA's civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DLA funds a portion of the civilian and military pensions. Reporting civilian pension benefits under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management. DLA recognizes an imputed expense for civilian employee pensions and other retirement benefits in the Statement of Net Cost; and recognizes imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position. DLA reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Trust Fund CFO report. DLA recognizes the actuarial liability for the military retirement health benefits in the DoD Agency-wide statements.*

4. *Most legal actions, other than contract claims, to which DLA may be a named party are covered by the provisions of the Federal Tort Claims Act and the provisions of Title 10, United States Code, Chapter 163, governing military claims. Either*

because payments under these statutes are limited to, amounts well below the threshold of materiality for claims payable from DLA's appropriations or because payments will be from the permanent, indefinite appropriation "Claims, Judgments, and Relief Acts" (the Judgment Fund), these legal actions should not materially affect DLA's operations or financial condition.

Funds with the U.S. Treasury and Cash

The DLA's fund resources are maintained in U.S. Treasury accounts. Fund Balances with Treasury represent the aggregate amount of an entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. DWCF Activity Groups account for cash collections and disbursements. Beginning balances are not allocated to the Activity Groups. As a result, only the net of cash collections, disbursements, and transfers are presented on the Balance Sheet.

DLA currently reports cash balances as stated by the U.S. Treasury. A cumulative difference exists between the disbursements and collections reported by the U.S. Treasury and the disbursements and collections reported in DLA's accounting records and is referred to as undistributed. This cumulative difference exists because of in-transit disbursements, collections, and funding adjustments reported to and recorded by the Treasury but not yet reported to and recorded by DLA. For the Materiel Portion of Supply Management, these amounts are maintained in the trial balance in accounts called undistributed collections and disbursements. The cash balance is maintained at the consolidated level of reporting for Supply Management. The Fund Balance with Treasury is calculated by taking the amount reported by the U.S. Treasury and posting that as cash. Because of these adjustments, the Fund Balance with Treasury, Accounts Receivable, and Accounts Payable do not agree with the amounts shown in DLA's accounting records. These differences are disclosed as "undistributed" amounts in Note 3 for Accounts Receivable and Note 16 for Accounts Payable and are supported by the undistributed accounts on the trial balance.

Beginning in FY 99, in accordance with guidance issued on October 6, 1998 by OUSD(C), DLA will begin to report in its financial statements, cash balances as reported in its accounting records.

Foreign Currency

Gains and losses from foreign currency transactions are not recognized in the Statement of Net Cost. They are absorbed by budgetary transactions in which obligations are increased or decreased to reflect foreign currency fluctuations. There are no foreign currency translation adjustments.

Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims and refunds receivable from other entities. DLA has not established an allowance for uncollectible accounts because the majority of its revenues are the result of sales to other federal entities from which, due to the nature of the federal government, there are virtually no bad debts. Additionally, DLA has generally not experienced significant uncollectible accounts with its customers outside of the federal government.

Inventories

Inventories are valued at (1) approximate historical cost in accordance with Statement of Federal Financial Accounting Standards Number 3, "Accounting for Inventory and related Property," and (2) Latest Acquisition Cost as required by DoD accounting policies. The latest acquisition cost method provides that the last representative invoice price shall be applied to all like units held, including units acquired through donation, non-monetary exchange, and return from end use or reutilization. Generally, the latest acquisition cost is determined by subtracting the appropriate surcharges from the standard cost to arrive at the price most recently paid for a carried item.

In addition to latest acquisition cost adjustments made to the valuation of inventory, DLA makes other inventory valuation adjustments due to physical gains or losses, accounting gains or losses, etc. These valuation adjustments, referred to as holding gains or losses, are realized when the price variance or valuation adjustment occurs and is reported on the Balance Sheet in a contra-inventory allowance account. These inventory adjustments are recognized in the Statement of Net Cost upon the sale or disposal of materiel. Prior to FY98, the holding gains or losses that resulted from price variances or valuation changes for inventory items were immediately recognized and reported in the Statement of Net Cost and included in the calculation of the cost of goods sold. Currently, DLA's accounting systems are unable to comply with the accounting guidance regarding inventory valuation, therefore these holding gains and losses are realized and recorded on the Balance Sheet and recognized in the Statement of Net Cost using an estimate. The net change in inventory for this new method of valuation is $58.0 million.

Potential reutilization inventory (previously called potential excess inventory) is inventory in excess of approved force acquisition objectives and approved force retention stock objectives. Beginning in FY98, procedures accounting for potential excess inventory changed. These inventory items are written down to their net realizable value (3.4%) according to DoD guidance. The remaining portion is expensed and included in the calculation of unrealized holding period gains and losses.

Disposal property is classified and reported as "Other Entity Assets" in accordance with DoD reporting guidance. This property is not "primarily" held for sale, and therefore does not meet the definition of inventory for classification purposes.

DAPS inventories include operating materials and supplies and non-consumable items. These inventories are valued using the weighted-average method.

Property, Plant and Equipment

General Property, Plant and Equipment (PP&E) is valued at historical acquisition cost. All General PP&E, other than land, is depreciated in accordance with the Under Secretary of Defense (Comptroller) (USD(C)) policy memorandum dated March 26, 1998. General PP&E is reported at historical acquisition cost less any accumulated depreciation. The historical acquisition cost includes all the costs necessary to put the asset in place and into the form in which it will be used. The capital assets for DLA include such items as ADP equipment, materiel handling equipment, and software. Routine maintenance and repair costs are expensed when incurred. Depreciation for property and equipment is recorded on a straight-line basis.

General PP&E with an acquisition cost, book value, or when applicable, an estimated fair market value of $100 thousand and an estimated useful life of two years or more were capitalized. Prior to FY 96, General PP&E with an acquisition cost, book value, or when applicable, an estimated fair market value of $15 thousand, $25 thousand, and $50 thousand for FY93, FY94, and FY95, respectively, and an estimated useful life of two years or more was capitalized.

The General Accounting Office (GAO) has determined that real property used by any DWCF activity, but under the jurisdiction of the Military Departments, represents an asset of the DWCF activity and such property should be reported on the financial statements as an Entity asset to show the full costs of all resources and assets used in operations. These amounts should be recorded at acquisition cost, or if unavailable, at fair market value. Documentation to support the recorded acquisition cost of many older properties is unavailable, and DoD believes it is not cost effective to obtain fair market value appraisals for many of these properties. These older properties would in all likelihood be fully depreciated, resulting in no impact to these financial statements.

The cost of Stewardship Assets (National Defense Property, Plant and Equipment, Heritage Assets and Stewardship Land) shall not be reported on the balance sheet beginning in FY 98. Any such previously reported costs shall be charged to the Net Position of the Entity, and the adjustment shall be shown as a "prior period adjustment." Other information on Stewardship Assets shall be reported in Supplemental Stewardship Reports. Multi-use Heritage Assets are treated as General PP&E for reporting and accounting purposes. Therefore, the acquisition costs of Multi-use Heritage Assets, and any capitalized renovations or improvements, shall be reported on the balance sheet and depreciated. Multi-use Heritage Assets are Heritage Assets that are predominantly for government operations.

Prepaid and Deferred Charges

Payments before the receipt of goods and services are recorded as advances at the time of prepayment and reported as an asset on the Statement of Financial Position. Expenses are recognized when the related goods and services are received.

Leases

DLA Working Capital Fund does not have operating or capital leases. However, DLA is committed to rental agreements. Generally, agreements are for the rental of equipment, space and operating facilities. Payments under these rental agreements are expensed as incurred.

Contingencies

At any given time, DLA may be party to various legal and administrative claims and actions brought against it. In management's opinion, the resolution of these actions will not materially affect DLA operations or financial position. Therefore, no contingent liabilities have been recognized in the Balance Sheet.

Accrued Leave

Civilian annual leave is accrued as earned, and accrued amounts are reduced as leave is taken. Unused annual leave is reported as a funded expense and the liability is reduced as leave is taken. The *balances for annual civilian leave at the end of the fiscal year reflect current pay rates for the leave that is earned but not taken. Sick and other types of non-vested leave are expensed as taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.*

Equity

Equity consists of invested capital, capitalization of assets, cumulative results of operations, future funding requirements, and other equity balances. Cumulative results of operations for working capital funds represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to the U.S. Treasury.

Comparative Data

Comparative data for the prior year has not been presented because FY98 is the first year for which financial statements are prepared using the OMB 97-01 prescribed format. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the DLA's reporting activities.

Undelivered Orders

DLA is obligated for goods and services, which have been ordered but not yet, received (undelivered orders) as of September 30, 1998.

Note 2. Fund Balances with Treasury

The Defense Logistics Agency (DLA), as the cash manager for the Defense Agencies sub-numbered Defense Working Capital Funds cash account has not allocated budgetary cash. Because budgetary cash has not been allocated to the DLA Working Capital Fund level, Notes 2 is not applicable. The amount reflected on the Balance Sheet represents the net amount of FY98 collections, disbursements, and cash transfers.

Note 3. Accounts Receivable, Net

(Dollars Rounded to Thousands)

	Accounts Receivable, Gross	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Entity Receivables			
Intragovernmental	*$ 770,451*	*N/A*	*$ 770,451*
With the Public	*92,825*	*0*	*92,825*

Allowance method Used

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

Other Information

Currently, a variance exists between the cash reported by the U.S. Treasury and the cash reported in DLA's accounting records and it is referred to as undistributed cash. Undistributed cash includes cash collected by the U.S. Treasury that has not yet been posted in DLA's accounting records. At September 30, 1998 the U.S. Treasury reported $166,734 more in collections than DLA posted in its accounting records. DLA reports in its Balance Sheet the accounts receivable amount in DLA's accounting records adjusted by the amount of undistributed collections reported by the U.S. Treasury. Accounts receivable, as reported in DLA's accounting records, is reconciled to Treasury's records in the following table:

Entity Receivables	Accounts Receivable, Gross (in DLA's records)	Undistributed Collections	Accounts Receivable, Gross
Intragovernmental	$ 888,511	$ (118,060)	$ 770,451
Governmental	141,499	(48,674)	92,825
	$ 1,030,010	$ (166,734)	$ 863,276

Note 4. Other Assets

(Dollars Rounded to Thousands)

Other Entity Assets

Payments to Contractors	$ 188,927
Travel Advances	1,548
Equipment not in use	328,808
Items on Loan to other government agencies	9,008
Items Due in to Storage	421
Reparable Inventory	19,881
Property Disposal Inventory	171,829
	$ 720,422

Information related to Other entity assets

Payments to contractors include amounts paid in advance to contractors and suppliers to finance production already accomplished or pursuant to production orders. These payments are recorded as progress payments at the time of prepayment and expensed when the goods or services are received. Travel advances are payments made to civilian employees for the purpose of business travel before the actual travel expense is incurred. Equipment Not in Use represents the net book value of equipment that would normally be classified as Property, Plant and Equipment if it was currently being utilized. Items on Loan to Other Government Agencies represents the acquisition value of property owned by DoD which has been provided to, acquired by, or fabricated by other federal agencies. The majority of this property is metal working machinery on loan to the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA). Items Due into Storage represents the acquisition value of property owned by DoD which has been provided to, acquired by, or fabricated by other federal agencies and deemed as excess and has been currently recalled or is currently in transit to DoD. Reparable Inventory represents the acquisition value of industrial plant equipment that is currently warehoused by DoD and is either currently being repaired or available for issue to the Military Services. Property Disposal Inventory represents the net realizable value of inventory items that await disposal or reutilization . This inventory contains usable items, scrap items and retail scrap items valued at $156,545, $15,276, and $8, respectively.

Other Non-entity Assets

Active Items in Hands of Contractors	$ 69,280
Suspense Account Asset	14,027
	$ 83,307

Information related to Other non-entity assets

A suspense account is maintained by the Defense Reutilization and Marketing Service (DRMS) and represents cash received for the sales of property disposal; the proceeds of which are pending disposition to the originator. Active Items in the Hands of Contractors represents the acquisition value of property owned by DoD which has been provided to, acquired by, or fabricated by contractor organizations to facilitate completion of a contract requirement to DoD. Such property is either consumed in the performance of the contract or will be available for return to DoD at contract completion.

Note 5. Inventory and Related Property

(Dollars Rounded to Thousands)

Inventory and Other Related Property

	Inventory Amount	Allowance for (Gains) losses	Inventory, Net	Valuation Method
Held for Current Sale	*$ 8,282,472*	*$ (23,558)*	*$ 8,306,030*	*LAC*
Held in Reserve for Future Sale	*1,385,233*	*0*	*1,385,233*	*LAC*
Excess, Obsolete, and Unserviceable	*34,419*	*0*	*34,419*	*NRV*
Held for Repair	*18,547*	*0*	*18,547*	*LAC*
	$9,720,671	$ (23,558)	$ 9,744,229	

Legend: Valuation Method

LAC Latest Acquisition Cost

NRV Net Realizable Value

Restrictions on Inventory Use, Sale, or Disposition

Inventory Held in Reserve for Future Sale includes inventory held for research or reclassification and war reserve materiel. Inventory held for research or reclassification is held until its final disposition and is not available for immediate sale. War reserve materiel is inventory that is held for future use in case of conflict or other emergent need. War reserve materiel includes fuel and subsistence items and, at September 30, 1998, the value of the war reserve materiel held in reserve amounted to $1,063,985.

Other Information

Inventory Classifications

Inventory Held for Sale includes the value of most supply system materiel that is in an issuable condition. It also includes the value of inventory that is in transit between storage locations or from suppliers. General ledger accounts are used to record the initial acceptance of inventory items when title has passed but the items have not been received and accepted into inventory.

Excess, Obsolete and Unserviceable inventory includes the value of three classifications of inventory. Excess inventory consists of items that are determined to be beyond economic and contingency retention stock levels and, as a result, are reported as potential reutilization or disposal materiel. Obsolete inventory includes items that are deemed obsolete and no longer needed due to changes in technology, laws, customs or operations. Unserviceable inventory include items that are not expected to survive repair after a technical evaluation is performed at a maintenance activity and damaged items that are not economical to repair. The value of all excess, obsolete and unserviceable inventory is written down to its net realizable value (3.4%) according to DoD guidance. The remaining portion is expensed and included in the calculation of unrealized holding period gains and losses.

Inventory Held For Repair includes the value of inventory items that are not in an issuable condition, but not beyond economical repair, and are awaiting repair before they are eligible for sale.

Inventory Adjustments

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

Other

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

Operating Materials and Supplies (OM & S)

	OM&S Amount	Allowance for (Gains) Losses	OM&S, Net	Valuation Method
Held for Use	*$ 11,894*	*0*	*$ 11,894*	*Other*
	$ 11,894	0	$ 11,894	

Restriction on Operating Materials and Supplies

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

Other Information

Operating materials and supplies held for sale are valued using the weighted-average method.

Recap of Inventory and Other Related Property

	Amount
Inventory, Net	*$ 9,744,229*
Operating Materials and Supplies, Net	*11,894*
	$ 9,756,123

Note. 6 General Property, Plant and Equipment, Net

(Dollars Rounded to Thousands)

	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Land	*N/A*	*N/A*	*$ 0*	*$ 0*	*$ 0*
Structures, Facilities, L/H Improv.	*SL*	*20*	*1,501,098*	*996,831*	*504,267*
ADP Software	*SL*	*5*	*92,132*	*74,141*	*17,991*
Equipment	*SL*	*10*	*499,984*	*383,451*	*116,533*
Assets Under Capital Lease	*SL*	*10*	*21*	*21*	*0*
Construction in Progress	*N/A*	*N/A*	*114,304*	*0*	*114,304*
Other	*SL*	*5-10*	*77*	*5*	*72*
			$ 2,207,616	$ 1,454,449	$ 753,167

Legend: Depreciation Method
SL Straight Line

Other Information

Certain assets were not capitalized as of September 30, 1998. They include the DLA Headquarter's Complex Building and other miscellaneous corporate assets. If all these assets were capitalized as of September 30, 1998 the total acquisition value of General Property, Plant and Equipment would have increased by $151,686 to $2,359,303; total accumulated depreciation would have increased by $15,238 to $1,469,688; the total net book value of General Property, Plant and Equipment would have increased by $136,448 to $889,614.

Additionally, DLA has identified that a portion of the capital assets reported as construction in progress as of September 30, 1998 are misclassified. Analysis is currently being conducted by DFAS and the DLA Primary Field Level Activity (PLFA) Command sites to identify corrections needed. These changes will be made in fiscal year 1999. In addition, DLA has identified that certain assets classified as Assets Under Capital Lease at September 30, 1998 should have been classified as equipment. However, the affect to the PP&E net book value was zero because these assets were fully depreciated. In FY 99, these assets are reclassified as equipment.

Note 7. Other Liabilities

(Dollars Rounded to Thousands)

Environmental Cleanup

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

Other Liabilities

	Non-Current liabilities	Current Liabilities	Total
Intragovernmental			
Advances from others	$ 0	$ 133,691	$ 133,691
Deposit Funds and Suspense Account Liabilities	0	14,027	14,027
Other Liabilities	13,202	43,545	56,747
	$ 13,202	$ 191,263	$ 204,465
With the Public			
Accrued Funded Payroll and Benefits	$ 0	$ 122,749	$ 122,749
Advances from Others	0	1,020	1,020
Other Liabilities	0	2,128	2,128
	$ 0	$ 125,897	$ 125,897

Other Information

Advances from others represents the amount of cash transferred by participating civilian agencies or Military Services for materiel and services in support of their assigned program or in accordance with a specific agreement. The intragovernmental suspense account represents the value of bid deposits pertaining to contracts with a life of several years. Other intragovernmental liabilities represent the value of unearned revenue. Accrued funded payroll with the public is comprised of $15,168 thousand accrued salaries and wages and $107,581 in accrued annual leave. Other liabilities with the public represent the value of liabilities that are temporarily classified as such until the proper distribution or liquidation is determined.

Other Liabilities Not Covered by Budgetary Resources

DLA's only liabilities not covered by budgetary resources are pensions and other actuarial liabilities. See note 8 for a description of these liabilities.

Note 8. Pensions and Other Actuarial Liabilities

(Dollars Rounded to Thousands)

	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Assets Available to Pay Benefits	Unfunded Actuarial Liability
Workers' Compensation Benefits	$ 209,487	5.60%	$ 0	$ 209,487
	$ 209,487		$ 0	$ 209,487

Other Information

The actuarial liability estimate for future Workers' Compensation Benefits is provided by the Department of Labor. The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

Note 9. Contingencies

At any given time, DLA may be party to various legal and administrative claims and actions brought against it. In management's opinion, the resolution of these actions will not materially affect DLA operations or financial position. Therefore, no contingent liabilities have been recognized in the Balance Sheet.

Note 10. Disclosures related to the Statement of Net Cost

(Dollars Rounded to Thousands)

Gross Cost and Earned Revenue by Budget Functional Classification

	Budget Function Code	Gross Cost	Earned Revenue	Net Cost
Department of Defense Military	051	$ 14,029,415	$ 14,296,889	$ (267,474)
		$ 14,029,415	$ 14,296,889	$ (267,474)

Other Information

DLA has recognized an $190,517 imputed expense for the FY 1998 service cost of civilian employee pensions and other retirement benefits in the Statement of Net Cost and has recognized an equal amount of imputed financing in the Statement of Changes in Net Position. The imputed expense for the FY 1998 service cost of civilian employee pensions and other retirement benefits is computed as follows:

Civil Service Retirement System (CSRS)	$ 96,137
Federal Employees Retirement System (FERS)	206
Federal Employees Health Benefits Program (FEHBP)	93,846
Federal Employees Group Life Insurance (FEGLI)	328
	$ 190,517

Note 11. Deferred Maintenance on Property, Plant and Equipment

(Dollars Rounded to Thousands)

Summary of Deferred Maintenance by Category of Property, Plant and Equipment as of September 30,1998:

PP&E Category	
General Property, Plant and Equipment	$ 80,200
	$ 80,200

General Property, Plant and Equipment Deferred Maintenance as of September 30, 1998:

Property Type/ Major Class	
Personal Property	$ 0
Real Property	
Buildings	61,200
Structures	19,000
	$ 80,200

Other Information

DLA operates a number of distribution facilities throughout the world. During the fiscal year ending September 30, 1998 maintenance expense was recognized as incurred. However, maintenance completed during the FY98 was insufficient over the past several years and resulted in deferred maintenance.

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

The following chart presents information on deferred maintenance on major categories of property, plant and equipment experiencing material amounts of deferred maintenance:

	Method	Asset Condition (Note 1)	Cost to Return Assets to Acceptable Condition (Note 2)
Buildings	*Conditional Assessment Survey*	*Fair*	*$ 61,200*
Structures	*Conditional Assessment Survey*	*Fair*	*$ 19,000*

Note 1: *Conditional Rating Scales; Excellent, Good, Fair, Poor, or Very Poor*
Note 2: *Acceptable condition is "fair"*

Note 12. Disclosures related to the Statement of Changes in Net Position

(Dollars Rounded to Thousands)

Prior Period Adjustments		
Changes in Accounting Standards	*$*	*107,595*
Error and Omission in Prior Year Accounting		*159,839*
	$	267,434

Other Information

Changes in Accounting Standards

During FY 98, DLA changed from an inventory valuation method, which recognized gains and losses in the income statement when inventory was revalued or deemed as excess, to a method that realized these gains and losses on the balance sheet. As a result of this change, DLA's net position increased by $107,522. In addition, DLA changed its accounting method for the collection of refunds. As a result of this change, DLA's net position increased by $73.

Error or Omissions

During FY 98 DLA corrected various errors or omissions attributable to prior years and are detailed as follows.

- *Certain over-aged or erroneous accounts payable were written-off. These accounts payable were related to overaged or erroneous government bills of lading attributable to prior periods. As a result of this correction, net position increased by $128,900.*
- *Certain operating expenses that were overstated in prior periods were reversed. As a result of this correction, net position increased by $89,050.*
- *Certain revenues that were overstated in FY 95 were reversed. As a result of this correction, net position decreased by $6,150.*
- *Certain expenses, related to Government Bills of Lading, that were omitted in FY 97 were recognized. As a result of this correction, net position decreased by $4,429.*
- *Depreciation expense related to the Distribution Standard System (DSS) that is attributable to prior fiscal years was recognized. As a result of this correction, net position decreased by $47,533.*

Note 13. Disclosures Related to the Statement of Budgetary Resources

(Dollars Rounded to Thousands)

Net amount of Budgetary Resources Obligated for Undelivered Orders at the End of Period	$ 5,163,857
Available Borrowing and Contract Authority at the End of Period	$ 2,877,047

Note 14. Disclosures related to the Statement of Financing

Change in Amount of Goods, Services and Benefits

The change in amount of goods, services, and benefits ordered but not yet received or provided represents the change in undelivered orders from the prior fiscal year to this fiscal year. Due to the nature of undelivered orders, net decreases are added to obligations and net increases are subtracted from obligations to arrive at net cost of operations.

Depreciation and Amortization

This amount represents the sum of depreciation and amortization expense for the current year as it has been recorded in the DLA accounting records. The Defense Business Management System (DBMS) serves as the accounting system for the Information Services Activity Group. Unlike most accounting systems, DBMS obligates depreciation and amortization simultaneous with expense recognition. To comply with the Financial Management Regulation, Volume 6B, Chapter 8, depreciation and amortization expense has been separately reported on the Statement of Financing. However, due to this amount being recorded in the accounting records as an obligation as well as an expense, the reverse sign of this same amount is included in the "Financing Sources Yet to be Provided" line of this statement.

Note 15. Interagency Eliminations

(Dollars Rounded to Thousands)

Federal Government-Wide, Seller Activity

	Appropriation	Transactions with other Federal entities: Accounts Receivable	Revenue	Unearned Revenue
Defense Logistics Agency, WCF	*97X4930.005xx*	$ 90,803	$ 243,351	$ 3
		$ 90,803	$ 243,351	$ 3

Federal Government-wide, Sales to Other Federal Agencies

	Treasury Index	Arrayed by customer: Accounts Receivable	Revenue	Unearned Revenue
Executive Office of the President, Defense Security Assistance Agency	11	$ 4	$ 72	$ 0
Department of Agriculture	12	27,028	29,954	0
Department of Commerce	13	413	1,792	0
Department of the Interior	14	2,253	3,106	0
Department of Justice	15	8,814	17,922	0
Department of Labor	16	3,838	8,820	0
Department of State	19	1,141	524	0
Department of the Treasury	20	372	1,727	0
Office of Personnel Management	24	10	4	0
Nuclear Regulatory Commission	31	1	0	0
Department of Veterans Affairs	36	2,207	1,964	0
General Service Administration	47	3,707	6,962	0
National Science Foundation	49	187	3,583	0
Federal Emergency Management Agency	58	1,325	67	0
Environmental Protection Agency	68	50	27	0
Department of Transportation	69	27,301	82,332	3
Agency for International Development	72	39	(92)	0
Small Business Administration	73	2	0	0
Department of Health and Human Services	75	5,374	1,985	0
National Aeronautics and Space Administration	80	3,927	15,687	0
Department of Energy	89	569	2,758	0
Department of Education	91	74	90	0
Unidentifiable Federal Agency Entity	00	(5,774)	25,344	0
Miscellaneous Identifiable Federal Agencies (see note 1)	00	7,941	38,723	0
		$ 90,803	$ 243,351	$ 3

Note 1: *Not required to complete CFO Statements*

Note 16. Other

(Dollars Rounded to Thousands)

Accounts Payable

Currently, a variance exists between the disbursements reported by the U.S. Treasury and the disbursements reported in DLA's accounting records and it is referred to as undistributed. Undistributed includes disbursements by the U.S. Treasury that has not yet been posted in DLA's accounting records. At September 30, the U.S. Treasury reported $898,431 more in disbursements than DLA posted in its accounting records. DLA reports in its Balance Sheet, the accounts payable amount in DLA's accounting records adjusted by the amount of undistributed disbursements. Accounts payable, as reported in DLA's accounting records with undistributed disbursements is shown in the following table:

Entity Accounts Payables	Accounts Payables (in DLA's records)	Undistributed Disbursements	Accounts Payable
Intragovernmental	*$ 646,967*	*$ (206,094)*	*$ 440,873*
With the Public	*1,470,871*	*(692,337)*	*778,534*
	$ 2,117,838	$ (898,431)	$ 1,219,407

Disclaimer of DAPS financial position

Because of financial information system problems and financial statement compilation problems, DLA believes that the Defense Automated Printing Service (DAPS) financial statements are not completely representative of the DAPS financial position. DLA management does not believe that this will materially affect the fiscal year 1998 DLA Working Capital Fund Chief Financial Officer Annual Financial Statement. At September 30, 1998, DAPS assets represented less than 1% of the total DLA combined assets, DAPS revenues represented approximately 2.4% of total DLA combined revenues and DAPS expenses represented approximately 2.6% of total DLA combined expenses.

Required Supplemental Stewardship Information

Defense Logistics Agency - Defense Working Capital Fund

(This page intentionally left blank)

National Defense Property, Plant and Equipment

National defense property, plant and equipment is the property, plant, and equipment (PP&E) components of weapons systems and support PP&E used by the military departments in the performance of military missions. DLA does not own any PP&E that would be classified as national defense property, plant and equipment.

Stewardship Land

Stewardship land is land other than that acquired for or in the connection with general property, plant, and equipment. It may include land that was previously identified as public domain land or land that was donated to the federal government. DLA is not permitted by law to own land, therefore does not own any land that would be classified as stewardship Land.

Heritage Assets

Heritage assets are property, plant, and equipment of historical, natural, cultural, educational, artistic or architectural significance. DLA does not own any assets that would be classified as heritage assets.

Non–Federal Physical Property

Non–federal physical property refers to those expenses incurred by the Department of Defense for the purchase, the construction, or the major renovation of physical property owned by state and local governments, including major additions, alterations and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. Grants for maintenance and operations are not considered investments. DLA does not own any property that would be classified as Non–Federal Physical Property.

(This page intentionally left blank)

Required Supplemental Information

Defense Logistics Agency - Defense Working Capital Fund

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Disaggregated Statement of Budgetary Resources
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

	Supply Management	Distribution	Reutilization and Marketing Service
BUDGETARY RESOURCES			
Budgetary Authority	$ 0	$ 0	$ 0
Unobligated Balances – Beginning of Period	(601,323)	165,550	0
Net Transfers Prior Year Balance, Actual (+/–)	0	0	0
Spending Authority from Offsetting Collections	12,550,016	1,370,698	577,891
Adjustments	(1,088,083)	(6,948)	(203,621)
Total Budgetary Resources	$ 10,860,610	$ 1,529,300	$ 374,270
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	10,851,076	1,489,434	361,035
Unobligated Balances – Available	9,534	39,866	13,235
Total, Status of Budgetary Resources	$ 10,860,610	$ 1,529,300	$ 374,270
OUTLAYS			
Obligations Incurred	10,851,076	1,489,434	361,035
Less: Spending Authority from Offsetting Collections and Adjustments	(12,551,055)	(1,370,698)	(577,891)
Obligated Balance, Net – Beginning of Period	4,522,835	200,349	103,445
Obligated Balance Transferred, Net	0	0	0
Less: Obligated Balance, Net – End of Period	(4,150,653)	(134,611)	(123,934)
Total Outlays	$ (1,327,797)	$ 184,474	$ (237,345)

Information Services	Automated Printing Service	Combined
$ 0	$ 14,665	$ 14,665
42,603	0	(393,170)
0	1,501	1,501
108,052	443,038	15,049,695
0	0	(1,298,652)
$ 150,655	$ 459,204	$ 13,374,039
111,269	633,591	13,446,405
39,386	(174,387)	(72,366)
$ 150,655	$ 459,204	$ 13,374,039
111,269	633,591	13,446,405
(108,052)	(443,038)	(15,050,734)
(44,273)	(17,624)	4,764,732
0	(1,501)	(1,501)
32,235	(195,387)	(4,572,350)
$ (8,821)	$ (23,959)	$ (1,413,448)

(This page intentionally left blank)

Other Accompanying Information

Defense Logistics Agency - Defense Working Capital Fund

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidating Balance Sheet
As of September 30, 1998
(Dollars Rounded to Thousands)

	Supply Management	Distribution	Reutilization and Marketing Service
ASSETS			
Entity Assets			
Intragovernmental			
Fund Balance With Treasury (Note 2)	$ 504,783	$ (184,475)	$ 237,345
Accounts Receivable, Net (Note 3)	535,900	462,185	37,079
Total Intragovernmental	1,040,683	277,710	274,424
Accounts Receivable, Net (Note 3)	56,303	1,086	34,892
Inventory and Related Property, Net (Note 5)	9,744,229	0	0
General Property, Plant and Equipment (Note 6)	179,696	417,354	116,725
Other (Note 4)	474,441	62,341	178,563
Total Entity Assets	11,495,352	758,491	604,604
Non–Entity Assets			
Other (Note 4)	69,280	0	14,027
Total Non–Entity Assets	69,280	0	14,027
Total Assets	**$ 11,564,632**	**$ 758,491**	**$ 618,631**
LIABILITIES			
Liabilities Covered by Budgetary Resources			
Intragovernmental Liabilities			
Accounts Payable (Note 16)	$ 475,104	$ 190,600	$ 58,563
Other (Notes 7 and 9)	133,432	0	70,774
Total Intragovernmental	608,536	190,600	129,337
Accounts Payable (Note 16)	439,470	243,599	55,624
Other (Notes 7 and 9)	63,885	38,554	10,972
Total Liabilities Covered by Budgetary Resources	1,111,891	472,753	195,933
Liabilities not Covered by Budgetary Resources			
Military Retirement Benefits and Other Employment Related Actuarial Benefits (Note 8)	0	0	0
Total Liabilities not Covered by Budgetary Resources	0	0	0
Total Liabilities	**1,111,891**	**472,753**	**195,933**
NET POSITION			
Cumulative Results of Operations	10,452,741	285,738	422,698
Total Net Position	**10,452,741**	**285,738**	**422,698**
Total Liabilities and Net Position	**$ 11,564,632**	**$ 758,491**	**$ 618,631**

Information Services	Automated Printing Service	Combined	Eliminations and Adjustments	Consolidated
$ 8,821	$ 6,336	$ 572,810	$ 0	$ 572,810
12,771	20,184	1,068,119	(297,668)	770,451
21,592	26,520	1,640,929	(297,668)	1,343,261
0	544	92,825	0	92,825
0	11,894	9,756,123	0	9,756,123
7,741	31,651	753,167	0	753,167
5,077	0	720,422	0	720,422
34,410	70,609	12,963,466	(297,668)	12,665,798
0	0	83,307	0	83,307
0	0	83,307	0	83,307
$ 34,410	**$ 70,609**	**$ 13,046,773**	**$ (297,668)**	**$ 12,749,105**
$ 6,388	$ 7,886	$ 738,541	$ (297,668)	$ 440,873
0	259	204,465	0	204,465
6,388	8,145	943,006	(297,668)	645,338
14,467	25,374	778,534	0	778,534
6,529	5,957	125,897	0	125,897
27,384	39,476	1,847,437	(297,668)	1,549,769
0	0	0	209,487	209,487
0	0	0	209,487	209,487
27,384	**39,476**	**1,847,437**	**(88,181)**	**1,759,256**
7,026	31,133	11,199,336	(209,487)	10,989,849
7,026	**31,133**	**11,199,336**	**(209,487)**	**10,989,849**
$ 34,410	**$ 70,609**	**$ 13,046,773**	**$ (297,668)**	**$ 12,749,105**

Department of Defense
Defense Logistics Agency – Defense Working Capital Fund
Consolidating Statement of Changes in Net Position
For the period ending September 30, 1998
(Dollars Rounded to Thousands)

	Supply Management	Distribution	Reutilization and Marketing Service
Net Cost of Operations	**$ (358,426)**	**$ 102,228**	**$ (235,960)**
Financing Sources (Other than Exchange Revenues)			
Imputed Financing	0	0	0
Transfers-In	1,563,242	(580)	0
Transfers-Out	(1,672,958)	223,748	66,627
Net Results of Operations	248,710	120,940	302,587
Prior Period Adjustments	318,234	(43,841)	(10,579)
Net Change in Cumulative Results of Operations	566,944	77,099	292,008
Increase in Unexpended Appropriations	0	0	0
Change in Net Position	566,944	77,099	292,008
Net Position- Beginning of the Period	9,885,797	208,639	130,690
Net Position- End of Period	**$ 10,452,741**	**285,738**	**$ 422,698**

Additional information included in Note 12.

Information Services	Automated Printing Service	Combined	Eliminations and Adjustments	Consolidated
$ 6,944	**$ 8,962**	**$ (476,252)**	**$ 208,778**	**$ (267,474)**
0	0	0	190,517	190,517
2,686	(227)	1,565,121	0	1,565,121
11,214	(15,067)	(1,386,436)	0	(1,386,436)
6,956	(24,256)	654,937	(18,261)	636,676
0	3,620	267,434	0	267,434
6,956	(20,636)	922,371	(18,261)	904,110
0	15,332	15,332	0	15,332
6,956	(5,304)	937,703	(18,261)	919,442
70	36,437	10,261,633	(191,226)	10,070,407
$ 7,026	**$ 31,133**	**$ 11,199,336**	**$ (209,487)**	**$ 10,989,849**

Appropriations, Funds, and Accounts Included in Financial Statements

The following table lists all appropriation, funds, and accounts included in the financial statements for the year ended September 30, 1998:

Reporting Entity	Entity Sub–Organization	Fund/Account	Subhead
Defense Logistics Agency Working Capital Fund		97X4930.005	–
	Active		
	Supply Management	97X4930.005	C
	Distribution Depots	97X4930.005	B
	Defense Reutilization and Marketing Services(DRMS)	97X4930.005	N
	Information Services	97X4930.005	F5
	Defense Automated Printing Service (DAPS)	97X4930.005	G
	Inactive		
	Industrial Plant Equipment (IPE) (1)	97X4930.005	M

(1) The Industrial Plant Equipment sub–organization was consolidated with the Supply Management sub–organization in January 1992. Any remaining balances and activity through September 30, 1998 have been consolidated into the Supply Management sub–organization financial statements. Financial activity associated with contracts let before IPE's consolidation into the Supply Management sub–organization is expected to continue for years. All residual balances in the IPE sub–organization will be closed when these contracts have been settled.

Auditors' Opinion

Defense Logistics Agency - Defense Working Capital Fund

(This page intentionally left blank)

Defense Logistics Agency
Office of Comptroller
8725 John J. Kingman Road, STE 2533
Ft. Belvoir, VA 22060-6221

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