

*CHIEF FINANCIAL
OFFICER
ANNUAL FINANCIAL
STATEMENT
FY 1997*

*DEFENSE COMMISSARY
AGENCY
DEFENSE WORKING CAPITAL
FUND*

FEBRUARY 27, 1998

***DEFENSE COMMISSARY AGENCY
WORKING CAPITAL FUND***

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DIRECTOR'S MESSAGE

DeCA has continually worked hard to improve operations at all levels, and to keep commissaries functioning at the optimum levels of customer service and cost savings. Fiscal Year 97 has been no exception. Our efforts to provide quality goods to our customers at the lowest possible cost has earned DeCA the distinct honor of being named the Department of Defense's first transitional Performance Based Organization. DeCA has also joined the field of competitors for the Presidential Quality Award. Comparing the agency with some of the best - using Presidential Quality Award criteria - is one way agency officials will find out just how good DeCA is.

The commissary privilege is considered the most valuable non-pay compensation benefit by service members and their families, after medical care. It is also a key benefit to our military retirees and members of the Reserves and National Guard. As the Director, I am personally committed to ensuring that the Agency's primary objective --to make quality goods available to the customer at the lowest possible cost -- remains at the forefront of initiatives undertaken by the Agency and the Department of Defense.


RICHARD E BEALE, JR.
Director

***DEFENSE COMMISSARY
AGENCY***

***WORKING CAPITAL
FUND***

***CONSOLIDATED
OVERVIEW***

**DEFENSE COMMISSARY AGENCY
DEFENSE WORKING CAPITAL FUNDS
OVERVIEW OF THE REPORTING ENTITY**

Description of the Reporting Entity

The Defense Commissary Agency (DeCA) is an element of the Department of Defense under the Under Secretary of Defense Personnel and Readiness. DeCA was formed after the House Armed Services Committee appointed Jones Commission recommended a single agency to operate the Military commissary system more efficiently and at a lower cost than the former military services' four systems. Activated on October 1, 1991, DeCA operates a network of systems managing over 19,000 employees, encompassing 299 commissaries worldwide with annual sales of approximately \$5.1 billion.

Mission

DeCA's mission is to operate an efficient and cost-effective commissary system to provide a non-pay benefit which improves the quality of life of our patrons and enhances military readiness and the retention of quality personnel.

The Agency headquarters is located at Fort Lee, Virginia. The headquarters command element and staff manage the total resources of DoD commissaries worldwide, including personnel, facilities, supplies, equipment and funding. The headquarters maintains oversight of 4 regions, 38 zones, and 299 commissaries on military installations worldwide.

Goals and Objectives

1. SATISFY THE CUSTOMER

- a. Provide products and services that our customers desire.
- b. Provide quality products and services at the lowest possible price.
- c. Increase accessibility by all authorized customers.
- d. Improve store operations through market development program initiatives.

2. TAKE CARE OF OUR PEOPLE

- a. Achieve and sustain a culturally diverse work force.
- b. Achieve a highly trained work force.
- c. Develop and implement PBO personnel management initiatives.

Overview

3. APPLY BEST COMMERCIAL SOLUTIONS TO RESALE PROGRAMS TO ACHIEVE PROGRESSIVE MARKET EXCELLENCE.

- a. Ensure stewardship of funds and assets.
- b. Increase sales.
- c. Reduce costs.
- d. Streamline and improve the acquisition process.
- e. Streamline and improve financial management and accounting processes.
- f. Modernize and sustain facilities.

4. PROJECT OUR CORPORATE IMAGE AS THE MARKETPLACE OF CHOICE

- a. Create and project an integrated image program.

DeCA Regions

Region	Location
Eastern	Virginia Beach, VA
Midwest	Kelly Air Force Base, TX
Northwest-Pacific	McClellan AFB, CA
European	Kapaun Air Station, Germany

In FY 1997, the DeCA's region realignment was accomplished by consolidating the Northeast, Central and Southern Regions into the newly-named Eastern Region, and combining the Northwestern/Pacific and Southwest Regions into what is now called the Western/Pacific Region. The Midwest and European Regions remain the same.

The Region Directors are responsible for ensuring the accomplishment of all phases of the DeCA mission, including policy implementation, customer service programs, safety and security, personnel management, training, merchandising, and stockage requirements. They are also accountable for all region assets and resources.

Department of the Defense Commissary Board (DCB)

With the establishment of the Defense Commissary Agency as a Performance Based Organization (PBO) on October 1, 1996, the Assistant Secretary of Defense directed a reconstitution of the DoD Commissary Board to oversee and support a new century of value and service for our military patrons. The board's new membership is comprised of the Assistant Secretary of Defense (Force Management Policy), who serves as chairman; Under Secretary of Defense (Comptroller); Director, Joint Staff; Assistant Secretaries of each of the military services, Executive Director, MWR & Resale Activities, and the senior uniformed officer and enlisted from

each of the military services. In the absence of the Assistant Secretary of Defense, the Executive Director for MWR and Resale Activities will serve as Acting Chairman.

Agency Funding

DeCA is funded from three congressionally approved sources.

(1) Commissary Resale Stocks (97X4930.5K00) finances the purchase of inventory for resale items to be sold to commissary patrons. The fund is a major activity group of the DWCF, requiring no appropriated fund support. Revenues from sales are used to replace inventory sold.

(2) Commissary Operations (97X4930.5J00) finances operations costs for resale stores, command and region headquarters and operations support center. The fund is a primary activity group of the DWCF and receives appropriated funds annually.

(3) Commissary Surcharge Collections (97X8164.6400) revenue is generated when surcharge is added to grocery sales at the checkout counter. Funds generated by the surcharge are used for commissary construction, equipment, supplies, and to pay CONUS utilities. Surcharge funding authorization is apportioned by the Office of Management and Budget (OMB).

Financial Management Issues of the 90's.

Efforts to standardize agency financial policies and procedures, as well as maintain a well-trained workforce dispersed over the United States and all overseas locations has continued this fiscal year. Resources have been dedicated to efforts related to the Defense Commissary Information System (DCIS) and Point of Sale-Modernization (POS-M). DCIS will replace the business systems being used by DeCA today, by reducing manual labor and increasing efficiencies in ordering, receiving, and inventory management. POS-M will replace the front-end systems in every commissary worldwide and provide more efficient response, the ability to accept debit and credit cards, and provide management information for decision-making.

A decision was made by DoD that tobacco products sold in commissaries would sell at the same price as sold in the exchanges. Effective November 1, 1996, all tobacco inventories in the commissaries were sold to the exchanges but retained in the commissaries for sale as consigned inventory. The exchanges were required to pay DeCA the value of the inventory (\$40.4 million) by the end of FY 97. Throughout the year a continual reconciliation process was performed with the exchanges to ensure that consigned inventories were accurate and monies recouped. To ensure accuracy of consigned inventory, DeCA requires the commissaries to perform a quarterly inventory of tobacco products and submit the inventory to DeCA Headquarters for analysis. On-going monthly reconciliation is required by the commissary and the exchange for the monthly sales at store level. Additionally, a summary DeCA/Exchange reconciliation is required at the Headquarters level for AAFES/DeCA and NEXCOM/DeCA. Manual records are maintained to

Overview

monitor both the inventory and tobacco product sales, as well as a manual generation of an invoice to affect reimbursement semi-monthly to the exchanges of sales by DeCA.

Accounts Control Section (ACS)

During FY 97, the former Management Support Centers located in each commissary began consolidating into an Accounts Control Section (ACS). There are five ACS's serving the three CONUS Regions, with the European Region combining their ACS with their Analysis and Reconciliation function. Progress is being made to standardize the functions within the ACS and automate the transfer of documents from the commissary to the ACS. This effort has resulted in reduced staffing and paves the way to implement several actions that are currently being developed. The ACS process will incorporate the scanning of documents to an imaging system being designed to eliminate storage of hard copy documents. Centralizing the function has also allowed the Agency to automate reports, such as the Store Block Control Journal, which historically has been a manually generated report. The automated storage of records has decreased the time required for retrieval and research.

DeCA DIBS Frequent Delivery System (DIBS/FDS)

This specialized program linked with DIBS offers the economic advantages of "just in time" stock replenishment generally in the forms of reduced inventory investment, lower labor costs because of less product handling, and more efficient space utilization. The FDS program automatically calculates and prints rollup receipts. EDI brings DeCA closer to grocery industry standards for transmitting and receiving electronic information. In June 1997, a deployment of an enhanced version of FDS (version 7.3B) was started. This system offers several economic advantages of "just in time" stock replenishment generally in the form of reduced on hand inventory investment, lower labor costs resulting from less frequent product handling and more efficient space utilization, since product goes directly to the shelf and is not warehoused. DIBS/FDS uses Electronic Data Interchange (EDI) to order, confirm shipments, identify item discrepancies and create financial receiving files used to generate payments to manufactures. This system has also improved pricing integrity throughout DeCA since the single DIBS Master File is used. The DIBS/FDS deployment is on schedule with only one area in the Western Pacific Region and two areas in the Eastern Region left. Target date to complete the integration is April 15, 1998.

Delivery Ticket Invoice (DTI)

Delivery Ticket Invoice is a payment method whereby the delivery ticket or its electronic equivalent, is signed, certified and used to process the vendor payment, and is quickly becoming the bill paying standard for DeCA's resale suppliers. Using this process, companies are no longer required to submit invoices to Defense Finance and Accounting Service (DFAS) payment centers.

Advantages of DTI include more timely bill paying, fewer bill paying discrepancies, fewer interest penalties and lost discounts and more efficient use of personnel and financial resources. In FY97, DeCA payments included more than 1.5 million invoices in DTI payments for approximately \$3.3 billion. With the deployment of DeCA's Standard Automated Voucher Examination System to our European Region in FY98, the capability becomes available to offer vendors in that region the option to choose DTI as a payment method.

Defense Commissary Information System (DCIS)

With the elimination of ASAC (Automated System for Army Commissaries) and the planned implementation of DCIS in FY 98, DeCA will be utilizing the general ledger module of the Assets, Liabilities, Capital, Income, and Expenses (ALCIE) to replace those functions performed by ASAC. DeCA is currently in the process of testing ALCIE to ensure that the system meets all requirements as a replacement to ASAC and that the transactions interface with the external financial system.

Point of Sale (POS) Modernization Program

POS-M will provide DeCA with a "state of the art" front-end system that mirrors commercial industry. The system has the capability to process credit and debit cards, electronic benefits transfer, electronic couponing, and check verification.

The POS-M has been implemented at 115 commissaries worldwide with the remaining scheduled to be fully deployed by December 1998.

Reengineering Dishonored Checks

A contract was signed in FY 97 with a collection agency to handle the collection of dishonored checks for CONUS region commissaries. After collection efforts are made first by the commissary, the checks are forwarded to the collection agency. During the latter part of FY 97 action was taken to bring the European Region on-line in this effort. This procedure has enabled DeCA to collect for both in service and out of service patrons at no cost to DeCA, has decreased workload at DeCA's two servicing finance offices, and is serving as a deterrent to service members writing bad checks.

During FY 97 the commissaries were provided installment procedures for the collection of dishonored checks. These procedures give patrons the ability to pay their debts prior to submitting the debt to a collection agency. By allowing the patron to pay by installment, more debts are being recouped.

Overview

Electronic Benefits Transfer (EBT) Program

States roll-out their Food Stamp EBT program, as well as, the Women and Infant Children (WIC) SMARTCARD off-line programs either state-wide or by county. The recipients of these programs use their state issued plastic card to access their benefits at a POS terminal. DeCA works with the Department of Agriculture and the States to implement their EBT Programs. As states come on line, procedures and training are provided to the respective commissaries. Plans are to incorporate these programs into POS-M.

Credit Card Program

DeCA has explored many new initiatives to remain current with commercial supermarkets, improve customer service and reduce expenses. One of these initiatives is for DeCA to participate in the U.S. Treasury's Plastic Card Program, which allows selected government agencies to accept VISA and MasterCard as payment for goods, services and fees. DeCA in cooperation with the Treasury Department and one of its servicing financial institutions (Nations Bank), is currently allowing shoppers to use credit cards at commissaries.

DeCA believes the credit card program has the potential to:

Reduce administrative costs to DeCA and DFAS

Improve customer service by offering another payment option that is available at commercial grocery stores

Spread sales more evenly through the month by reducing payday crowds

Reduce the number of bad checks presented

Reduce the amount of cash in the commissary

DeCA has recently deployed a new Point of Sale - Modernization (POS-M) system to more than one hundred sites which allows the acceptance of credit/debit cards. DeCA is scheduled to have all stores implemented with the new POS-M system by December 1998.

In-Store Banking

One of DeCA's current initiatives is implementing banking facilities within the commissaries. DeCA believes in-store banking will:

- Improve customer service (provide same options as commercial sector)
- Reduce banking service costs (armored car, rolled coins, etc)
- Eliminate change fund

- Reduce cash management requirements
- Increase sales

DeCA has implemented in-store banks at Charleston Air Force Base in July 1997 and Bolling Air Force Base in November 1997.

Quarterly Reviews of Obligations

Efforts are on-going by the two serving finance offices and DeCA to reduce Negative Unliquidated Obligations (NULOs).

Quarterly joint reviews were conducted during the year to include the unliquidated obligation reviews, negative undelivered orders, stand alone disbursements, and receipts greater than disbursements.

Defense Civilian Pay System (DCPS)

The Department of Defense (DoD) mandated DCPS as the standard civilian pay system. DeCA will convert from the Defense Business Management System (DBMS) to DCPS On-Line for time and attendance ; DCPS for payroll and the Defense Civilian Personnel Data System (DCPDS) for personnel. The effective conversion is scheduled for May 10, 1998.

DCPS On-line will be the system used to report civilian labor. DCPS On-line is presently being used by the OCONUS Western Pacific Region stores for which cost is manually recorded into DBMS and the European Region which costs are updated into STANFINS.

***DEFENSE COMMISSARY
AGENCY***

***WORKING CAPITAL
FUND***

***CONSOLIDATED
PRINCIPAL STATEMENTS***

Principal Statements

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Consolidated
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	(\$196,813)	(\$307,990)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	7,230	14,376
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	148,751	56,070
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	1,194	934
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	328,035	347,019
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	533	439
l. War Reserves	0	0
m. Other Entity Assets	99,154	154,535
n. Total Entity Assets	\$388,084	\$265,383
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Consolidated
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>\$388,084</u>	<u>\$265,383</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$171,645	\$260,520
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	431,228	431,065
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	13,682	14,928
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$616,555</u>	<u>\$706,513</u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
 Defense Commissary Agency - Working Capital Fund - Consolidated
 Statement of Financial Position
 As of September 30, 1997
 (Thousands)**

LIABILITIES, Continued	<u>1997</u>	<u>1996</u>
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	64,945	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	30,365	28,211
c. Total Liabilities Not Covered by Budgetary Resources	<u>\$95,310</u>	<u>\$28,211</u>
6. Total Liabilities	<u>\$711,865</u>	<u>\$734,724</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations (Note 31C)	\$66,666	\$56,442
b. Invested Capital	5,168,537	3,822,955
c. Cumulative Results of Operations	(5,463,674)	(4,320,527)
d. Other	0	0
e. Future Funding Requirements	(95,310)	(28,211)
f. Total Net Position	<u>(\$323,781)</u>	<u>(\$469,341)</u>
8. Total Liabilities and Net Position	<u>\$388,084</u>	<u>\$265,383</u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
 Defense Commissary Agency - Working Capital Fund - Consolidated
 Statement of Operations and Changes in Net Position
 For the Period Ended September 30, 1997
 (Thousands)**

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used (Note 31C)	\$906,214	\$822,258
2. Revenues from Sales of Goods and Services		
a. To the Public	5,134,642	5,236,286
b. Intragovernmental	34,906	47,147
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	58,937	1,583
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$6,134,699</u>	<u>\$6,107,274</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$970,144	\$981,520
10. Cost of Goods Sold (Note 24)		
a. To the Public	5,141,668	5,296,086
b. Intragovernmental	27,389	42,109
11. Depreciation and Amortization	30	355
12. Bad Debts and Writeoffs	6,343	232
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	530	398
14. Other Expenses (Note 25)	58,651	322
15. Total Expenses	<u>\$6,204,755</u>	<u>\$6,321,022</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$70,056)	(\$213,748)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$70,056)</u>	<u>(\$213,748)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense Commissary Agency - Working Capital Fund - Consolidated
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)**

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	(\$469,341)	(\$808,093)
20. Adjustments (Note 27)	(250,833)	(47)
21. Net Position, Beginning Balance, as Restated	<u>(\$720,174)</u>	<u>(\$808,140)</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(70,056)	(213,748)
23. Plus (Minus) Non Operating Changes (Note 28)	466,449	552,547
24. Net Position, Ending Balance	<u><u>(\$323,781)</u></u>	<u><u>(\$469,341)</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense Commissary Agency - Working Capital Fund - Consolidated
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)**

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(\$70,056)	(\$213,748)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used (Note 31C)	(906,214)	(822,258)
3. Decrease (Increase) in Accounts Receivable	(85,536)	57,577
4. Decrease (Increase) in Other Assets	18,655	65,172
5. Increase (Decrease) in Accounts Payable	(88,917)	(277,291)
6. Increase (Decrease) in Other Liabilities	(1,246)	3,313
7. Depreciation and Amortization	30	355
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(251,064)	190
10. Total Adjustments	(\$1,314,292)	(\$972,942)
11. Net Cash Provided (Used) by Operating Activities	(\$1,384,348)	(\$1,186,690)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	\$0	\$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$916,438	\$878,700
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	271,097	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(307,990)	(533,193)
23. Net Appropriations	\$1,495,525	\$1,411,893

The accompanying notes are an integral part of these statements.

Principal Statements

**Department of Defense
Defense Commissary Agency - Working Capital Fund - Consolidated
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)**

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
	<hr/>	<hr/>
29. Net Cash Provided (Used) by Financing Activities	\$1,495,525	\$1,411,893
	<hr/>	<hr/>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$111,177	\$225,203
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>(307,990)</u>	<u>(533,193)</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>(\$196,813)</u></u>	<u><u>(\$307,990)</u></u>
 Supplemental Disclosure of Cash Flow Information:		
	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$530	\$398
 Supplemental Schedule of Financing and Investing Activity:		
	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

***DEFENSE COMMISSARY
AGENCY***

***WORKING CAPITAL
FUND***

***CONSOLIDATED
FOOTNOTES TO THE
PRINCIPAL STATEMENTS***

Footnotes

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMMISSARY OPERATIONS AND RESALE STOCKS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997**

Note 1. Significant Accounting Policies

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers Act. They have been prepared from the financial records of the Department in accordance with DoD Accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity:

DeCA Headquarters maintains overall program and fund control for funds distribution and execution reporting. The headquarters staff issues fund targets to the three CONUS commissary regions and to the OCONUS (European) region.

On October 1, 1996, DeCA was inaugurated by the Department of Defense as a performance based organization (PBO). PBO's are part of an overall Government reinvention program called the National Performance Review, sponsored by the White House and managed by the Vice President, who nominated DeCA as one of the eight Federal Agencies in March 1996, to become a PBO. DeCA's PBO status will allow the Agency to become more efficient and business-like in its management of commissaries worldwide.

On December 11, 1996, the Under Secretary of Defense (Comptroller) canceled the Defense Business Operations Fund and established four funds: the Army Working Capital Fund, the Navy Working Capital Fund, the Air Force Working Capital Fund, and the Defensewide Working Capital Fund. Collectively, the four funds are known as the Defense Working Capital Funds (DWCF). The DWCF embodies the principles of the National Performance Review: cutting unnecessary spending, servicing customers, empowering employees, and helping organizations solve their own problems.

Centralized accounting support for the CONUS regions, Headquarters and the Operations Support Center (OSC) is provided by the Defense Finance and Accounting Service Columbus Center (DFAS-CO), at Columbus, Ohio. The Defense Business Management System (DBMS) is used at DFAS-CO to account for the DWCF Commissary Operations. DBMS provides complete accounting control of funds distribution, commitments, obligations, expenses, disbursements, collections and reimbursements. The system also produces financial reports containing the results and status of operations. Commissary Resale Stocks are accounted for

Footnotes

using the Standard Finance System (STANFINS). CONUS region liaison offices interface with DFAS for payroll matters and other accounting requirements.

The Commissary Operations Fund is used for all civilian labor and related personnel costs and operating, equipment and supply costs above the commissary level.

Centralized accounting support for the European Region is provided by the 266 Theater Finance Command, at the Subsistence Finance and Accounting Office (SFAOE) in Germany. STANFINS is used for all DeCA accounting activity in Europe.

Effective October 1994, DFAS-CO assumed full responsibility for the preparation and submission of agency-level reports for DeCA. Both centralized accounting support offices provide accounting reports to the Agency Reporting Division (DFAS-CO-AC), where they are consolidated and submitted to the Departmental Accounting Office at the DFAS-Indianapolis Center.

In CONUS, resource management personnel in region liaison offices input commissary operations and surcharge-funded commitments, obligations and expenses into the DBMS system over dedicated communication lines. Supporting documents are forwarded to DFAS-CO, while copies are also retained at the regions. The regions also perform reviews of unliquidated obligations. DFAS-CO maintains DeCA's CONUS activity records, process and issue billings, provides commercial accounts service, process travel and permanent change of station (PCS) payment, provides collection and disbursement services, and provides civilian payroll services for those DeCA organizations paid in DBMS. They also provide DeCA with activity reports for DeCA funds executed through DFAS-CO.

The European Region obtains support from the SFAOE to include accounting and reporting for assigned funds; commercial accounts for offshore acquisitions; collection/disbursement services; billing; processing TFO/TBO transactions and travel/PCS. Accounting reports from STANFINS are provided monthly to the Region, DFAS-CO and DeCA Headquarters by the SFAOE.

In CONUS, obligations and receipts for subsistence delivery orders are generated simultaneously and forwarded electronically each business day from the commissaries into a computer located at the OSC. The data is loaded in the Standard Automated Voucher Examination System (SAVES), where the accounting transactions are produced. A SAVES transaction file is transmitted to the computer center at Columbus, and interfaced into the Automated System for Army Commissaries (ASAC) and STANFINS. Supporting documents are retained at the commissaries and DFAS-CO East and West Service Centers.

Milstrip Fresh Fruit and Vegetable (FF&V) requisitions are issued for resale subsistence. The requisition data is transmitted electronically from the commissary or Central Distribution Center (CDC) to the OSC computer. Each workday, the OSC computer passes a transaction file to Columbus, where the obligations are interfaced into ASAC and STANFINS.

The OSC was provisionally established December 4, 1994, and became fully operational on October 1, 1995. The OSC provides direct operational support to commissaries, regions, and zone managers. Its functional elements include: contracting, accounting, transportation, marketing, logistics, and information operations. The OSC is organized into multi-functional business units (teams) around major business processes. The OSC performs resource management functions related to CONUS stock fund bill paying, and reconciliation of CONUS stock fund inventory supply records with the financial records. The OSC has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption; accounting for redemptions and losses; and processing documentation to return the cash to the resale stock fund. The Marketing Business Unit (MBU) formed in 1994, addresses and resolves operational issues spanning Electronic Data Interface (EDI), contracting for brand name resale products, merchandising at national levels, cataloging, electronic pricing, and other support for store level operations. The MBU is part of the OSC.

The DFAS-CO East and West Service Centers generate payment vouchers for resale commercial accounts for DeCA CONUS region commissaries. The voucher and check-producing information is passed electronically from the OSC computer to DFAS-CO, where checks or EFT payments are produced and forwarded to vendors, and the accounting records are updated. DFAS-CO Service Centers retain documents to support vendor payments. DFAS-CO provides check numbers to the Service Center to update the SAVES automated bill registers. The DeCA European region commercial payments are made by the SFAOE using the Computerized Accounts Payable System (CAPS). The voucher and check producing information is generated by the Army Disbursing Office Payment System (DOPS). DeCA plans to implement SAVES in Europe during FY 98.

Due to a reengineering change, DeCA has assumed the acquisition and distribution functions of the Defense Personnel Support Center (DPSC) in support of commissaries, except for fresh fruits and vegetables, and offshore acquisition. Contracts for specific meats, bread and dairy products are now awarded by DeCA. Requisitions for semi-perishable and perishable brand name products overseas are being supported by the DeCA Interim Business System (DIBS) and DeCA Overseas Ordering and Receiving System (DOORS). The perishables distribution center in Europe, which was used to contain DPSC wholesale stock, is now used to contain DeCA retail stock.

Collections affect all three funds provided DeCA to operate the commissaries. Daily commissary sales receipts and surcharge collections (five percent added to sales price at checkout) are deposited into the DWCF Resale Stocks account and the Commissary Surcharge Collections account, respectively. The face values of merchandise coupon redemptions are deposited into Commissary Resale Stocks; reimbursement for coupon handling goes into the DWCF Commissary Operations account.

Footnotes

C. Budget and Budgetary Accounting:

Budget authority is received on the DD Form 1105R, Apportionment and Reapportionment Schedule. For Commissary Operations, budget authority is apportioned on the DD Form 1105R. For Resale Stocks, obligations may be incurred up to the amount of revenues generated by sales to customers. Both funds operate subject to the provisions of 31 USC 1517, relevant sections of 10 USC and DoD 1330.17-R.

D. Basis of Accounting:

Transactions are recorded on an accrual accounting and budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting/reporting is performed in compliance with OMB requirements.

E. Revenues and Other Financing Sources:

Resale Stock revenues are generated from sale of inventory items to authorized commissary patrons, whether on a cash, credit/debit cards, or charge sale basis. These inventory items consist of grocery, meat, and produce. Commissary Operations revenues are generated from coupon handling fees and from miscellaneous services provided for authorized customers. Revenues are recognized when earned.

F. Accounting for Intra-governmental Activities:

These statements are prepared net of intra-agency eliminations.

G. Funds with the U.S. Treasury and Cash:

DeCA's fund resources are maintained in Treasury accounts. It's cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances.

H. Foreign Currency: Not Applicable

I. Accounts Receivable:

The accounts receivable is presented in the Consolidated Statement of Financial Position. This account includes government, public, and Vendor Credit Memorandum (VCM) accounts and refunds receivables. Allowances for uncollectible accounts are based upon analysis of receivables aged over 180 days old. During fiscal year 1997, the DeCA wrote off approximately \$5,192 in uncollectible receivables.

J. Loans Receivable: Not Applicable

K. Inventories: Inventories, including operating supplies and non-consumable items, are valued at Latest Acquisition Cost as required by DoD accounting policies. Generally, these values are based on prices paid for recently acquired items. Gains and losses that result from valuation

changes for inventory items are recognized and reported in the Statement of Operations and included in the calculation of the cost of goods sold.

L. Investments in U. S. Government Securities: Not Applicable

M. Property and Equipment:

DeCA utilizes the Defense Property Accountability System (DPAS) to account for property and equipment. This data is interfaced with DBMS and monthly reconciliations are performed. DPAS does not interface with STANFINS; therefore, journal vouchers are prepared to update the system. The monthly property and equipment reports are produced from DPAS.

N. Prepaid and Deferred Charges: Not Applicable

O. Leases: Not Applicable

P. Contingencies: Not Applicable

Q. Accrued Leave:

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balance for annual leave is adjusted at the end of the fiscal year to reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

R. Equity: Not Applicable

S. Aircraft/Ship Crashes: Not Applicable

T. Treaties for Use of Foreign Bases: Not Applicable

U. Comparative Data: Not Applicable

V. Undelivered Orders: Not Applicable

Footnotes

Note 2. Fund Balance With Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

	Trust Funds	Revolv- ing Funds	Entity Assets Appro- priated Funds	Other Fund Types	Total
Unobligated Balance Available:					
Available	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Reserve for Anticipated Resources	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligated	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unfunded Contract Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unused Borrowing Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Treasury Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

B. Working Capital Fund Activities Below (USD(C)) Level:

	Appropriated Funds	Entity Assets Funds Collected	Entity Assets Funds Disbursed
Beginning Balance	\$ 0	\$ 0	\$ 0
Transfer of Cash to Others	\$ 0	\$ 0	\$ 0
Transfer of Cash from Others	\$ 0	\$ 0	\$ 0
Funds Collected	\$ 0	\$ 5,080,346	\$ 0
Funds Disbursed	\$ 0	\$ 0	\$ (6,213,094)
1997 Treasury Warrant	\$ 935,935	\$ 0	\$ 0
Ending Balance	\$ 935,935	\$ 5,080,346	\$ (6,213,094)

C. All Funds and Accounts.

	NonEntity Assets Funds Collected	NonEntity Assets Funds Disbursed
Beginning Balance	\$ 0	\$ 0
Funds Collected	\$ 0	\$ 0
Funds Disbursed	\$ 0	\$ 0
Ending Balance	\$ 0	\$ 0

D. Other Information: For 5J00, the Fund Balance with Treasury amount includes adjustments for undistributed collections of \$5,088 and undistributed disbursements of \$12,724.

Also included in undistributed disbursements is a DWCF Corporate Accounts Transfer of \$30,000. The original Treasury Warrant issued for 5J00 is \$917,300. This amount decreased by \$862, directed by a Program Budget Decision, to use for anti-terrorism. Also included in the amount is \$19,497 for Reprogramming Action FY 97-PA.

Collections include \$7,438 which was not reported to Treasury and therefore is not included in Treasury amounts. This amount is a cost recovery fee from tobacco sales from DeCA Surcharge to DeCA Operations.

Fund Balance With Treasury (5K00) reported above consists of collections and disbursements that have been reconciled to financial reports at Treasury. Funds disbursed per activity records show general ledger account balances of \$(5,195,491). The difference of \$16,047 consists of undistributed disbursements recorded in the automated accounting system, but have not yet been processed by Treasury. Funds collected per activity records show general ledger account balances of \$5,130,582. The difference of \$(99,959) consists of undistributed collections of \$(805) and PY undeposited collections of \$(99,154).

Last year, collections reported on the financial statements were overstated by \$99,154 over amounts reported in the automated accounting system, and receivables were understated by the same amount. This is attributed to the method of reporting undeposited collections (cash sales) in prior year. Although cash sales are recorded as receivables in the accounting system, FY 1996 year end financial statements reduced receivables by \$99,154 and reported these funds as collections. Based on a joint conference between DFAS and DeCA in April 1997, a decision was made to begin reporting cash sales as receivables on prepared financial statements.

Since collections were overstated by \$99,154 on prior year end financial statements, collections reported on current year reports must be reduced by the same amount. The net effect on reported net cash outlays and Fund Balance with Treasury between both reporting years will be zero. Although this adjustment will reconcile the reported fund balance, it greatly distorts current year net outlays for DeCA.

Note 3. Cash, Foreign Currency and Other Monetary Assets Not Applicable

Note 4. Investments Not Applicable

Note 5. Accounts Receivable

	(1)	(2)	(3)	(4)
	Allowance	Allowance	Method	Amount
	Amount	For Estimated	Used	Due
	<u>Due</u>	<u>Uncollectibles</u>		<u>Due</u>
A. Entity Receivables:				
Intragovernmental	\$ 7,230		See below	\$ 7,230
Governmental	\$ 151,482	(2,731)		\$ 148,751
B. Non-Entity Receivables:				
Intragovernmental	\$ 0	\$ 0		\$ 0
Governmental	\$ 0	\$ 0		\$ 0

C. Other Information: For 5J00, Allowance was based on 2% of the dollar amount of public receivables over 180 days delinquent. The amount of Intragovernmental receivables includes CY and PY undistributed collections in the amount of \$3,512.

For 5K00, the gross receivables of \$154,067 reported includes undistributed collections of \$805. This adjustment amount to receivables represents the difference of reported collections between the automated accounting system and Treasury records. The gross receivables reported above includes cash sales receivables of \$101,197.

The method used for uncollectible accounts is derived by taking 10 percent of public receivables that are aged over 180 days delinquent. During FY 97 the allowance account for uncollectible

Footnotes

receivables was adjusted accordingly at the time of the collection or write-off. In FY 97, DeCA wrote off approximately \$5,192 in uncollectible receivables.

Aggressive efforts taken by DeCA, DFAS-CO and SFAOE have reduced the outstanding resale charge sale receivables. The implementation of credit card procedures for accepting credit cards from the appropriated fund customers have contributed to the government receivables being reduced from \$5.7 million at the end of September 1996, to \$3.3 million at the end of September 1997. At this time, the use of credit cards by appropriated fund customers has been limited to CONUS, pending implementation of POS-M in the overseas areas. Full implementation of POS-M will be completed in FY 99. Even though the use of credit cards by non-appropriated fund customers reduced receivables in the area, the overall increase during FY 97 was attributed to the transfer of tobacco products to AAFES and NEXCOM. DeCA sold approximately \$40.4 million of existing inventory to the exchanges during FY 97.

See Note 29, Intrafund Eliminations

Note 6. Other Assets Federal (Intragovernmental) and Non Federal (Governmental) Assets Not Applicable

Note 7. Loans and Loan Guarantees, Non Federal Borrowers Not Applicable

Note 8. Inventory, Net

	(1) <u>Inventory Amount</u>	(2) <u>Allowance For Losses</u>	(3) <u>Inventory, Net</u>	(4) <u>Valuation Method</u>
A. Inventory Categories:				
(1) Held for Current Sale	\$325,214	2,821	328,035	a
(2) Held in Reserve for Future Sale				
(3) War Reserve Materiel				
(4) Excess, Obsolete, and Unserviceable				
(5) Held for Repair				
Total	\$325,214	2,821	328,035	

B. Restrictions on Inventory Use, Sale, or Disposition:

C. Other Information: Inventory Held for Current Sale includes inventory goods ready for sale and inventory-in-transit. Inventory allowance reported on the financial statements values inventory at the latest acquisition cost (LAC) based on sales revenue. The allowance for gains/losses (GLA 1529) was adjusted based on the computation of Cost of Goods Sold.

Note 9. Work in Progress Not Applicable

Note 10. Operating Materials and Supplies (OM&S), Net Not Applicable

Note 11. Stockpile Materials Net Not Applicable

Note 12. Seized Property Not Applicable

Note 13. Forfeited Property, Net Not Applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not Applicable

Note 15. Property, Plant and Equipment, Net

	(1) Depreci- ation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
A. Land			\$ 0	\$ 0	\$ 0
B. Structures, Facilities, & Leasehold Improvements			\$ 103	\$ 0	\$ 103
C. Military Equipment			\$ 0	\$ 0	\$ 0
D. ADP Software			\$ 0	\$ 0	\$ 0
E. Equipment	SL		\$ 1,142	\$1,037	\$ 105
F. Assets Under Capital Lease			\$ 0	\$ 0	\$ 0
G. Other			\$ 0	\$ 0	\$ 0
H. Natural Resources			\$ 0	\$ 0	\$ 0
I. Construction in Progress			\$ 325	\$ 0	\$ 325
Total			\$ 1,570	\$ 1,037	\$ 533

*Keys:

Depreciation Methods	Range of Service Life
SL = Straight Line	1 - 5 = 1 to 5 years
DD = Double-Declining Balance	6 - 10 = 6 to 10 years
SY = Sum of the Years' Digits	11 - 20 = 11 to 20 years
IN = Interest (sinking fund)	>20 = Over 20 years
PR = Production (activity or use method)	
OT = Other (describe)	

Other Information: As of the end of Fiscal Year 1997, completed commissaries have been transferred to the host installation. A decision is pending from the DoD Policy, Under Secretary of Defense (Comptroller) on whether the completed commissaries should remain on the property book of the Defense Commissary Agency or be transferred to the installation. The pending decision should also determine if the property should be carried on the property account of the Defense Working Capital Fund or the Titleholder, Surcharge Collections account. Construction of commissaries is funded by Surcharge Collections. The value of commissaries completed since the inception of DeCA is \$363,015.

Note 16. Debt

Not Applicable

Note 17. Other Liabilities**A. Other Liabilities Covered by Budgetary Resources:****B. Other Information:**

Footnotes

C. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current <u>Liability</u>	Current <u>Liability</u>	<u>Total</u>
1. Intragovernmental			
2. Governmental			
(a) Annual Leave	\$30,365		\$30,365
(b)	<u>0</u>		<u>0</u>
Total	\$30,365		\$30,365

Note 18. Leases

Not Applicable

Note 19. Pensions and Other Actuarial Liabilities

Major Program Activities	(1) Actuarial Present Value of Projected Plan <u>Benefits</u>	(2) Assumed Interest <u>Rate</u>	(3) Assets Available to Pay <u>Benefits</u>	(4) Unfunded Actuarial <u>Liability</u>
A. Pension and Health Plans	\$		\$	\$
B. Insurance/Annuity Programs	\$		\$	\$
C. Other-Workers Compensation	\$		\$	<u>\$ 64,945</u>
D. Total Line A + B + C	\$		\$	<u>\$ 64,945</u>

E. Other Information:

Future workers' compensation figures are 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, June 10, 1997 economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

1997

- 6.24 % in year 1
- 5.82 % in year 2
- 5.60 % in year 3
- 5.45 % in year 4
- 5.40 % in year 5 and thereafter

Note 20. Net Position

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
(1) Unobligated				
a. Available	\$ 0	\$ 0	\$ 0	\$ 0
b. Unavailable	\$ 0	\$ 0	\$ 66,666	\$ 66,666
(2) Undelivered Orders	\$ 0	\$ 0	\$ 0	\$ 0
B. Invested Capital	\$ 5,168,537	\$ 0	\$ 0	\$ 5,168,537
C. Cumulative Results of Operations	\$(5,463,674)	\$ 0	\$ 0	\$(5,463,674)
D. Other	\$ 0	\$ 0	\$ 0	\$ 0
E. Future Funding Requirements	<u>\$ (95,310)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (95,310)</u>
F. Total	\$ (390,447)	\$ 0	\$ 66,666	\$ (323,781)

G. Other Information: For 5J00, the amount of Unavailable Appropriated Funds represents the amount of the PY Undelivered Orders(56,442) + CY Treasury Warrant (916,438) less Appropriated Capital Used (906,214). Appropriated Capital Used is the amount of current year disbursements, less revenue, less CY reprogramming action (19,497), and + or - change in liabilities from prior year to current year.

For 5K00, Invested Capital includes the initial assets capitalized in October 1991, the inventories capitalized in October 1995 due to assume the acquisition and distribution of the DLA cold storage functions, the inventories decapitalized in October 1995 due to transfer of the Troop Issue functions to the Air Force, and the cumulative funds transferred to Treasury.

Note 21. Taxes

Not Applicable

Note 22. Other Revenues and Financing Sources

	1997	1996
A. Other Revenues and Financing Sources:		
(1) Other Miscellaneous Gains	\$ 322	\$ 1,583
(2) CSRS/FERS Retirement, Federal Employees Health Benefits, Federal Employee Group Life Insurance	<u>\$ 58,615</u>	<u>\$ 0</u>
Total	\$ 58,937	\$ 1,583

B. Other Information: The miscellaneous gain account on the general ledger is used to record the write-off of uncollectible receivables (Bad Checks, Charge Sales), the cash sales adjustments, and the miscellaneous checks received from claims filed as a result of Report of Surveys, Transportation Discrepancy Reports, and the Report of Discrepancy (RODs). DFAS-CO prepares a JV monthly to move the amount of the write offs of charge sales and bad checks out of the Other Miscellaneous Gains account to the Allowance for Loss on Receivables account. Depending on the net volume between write-offs and collections during the fiscal year, this account may have either a debit (loss) or credit (gain) balance on the general ledger trial balance.

Imputed Pension and Other Retirement Benefits (ORB):

CSRS/FERS Retirement	\$41,193
Health	\$17,370
Life Insurance	\$ 52

Footnotes

The \$58,615 represents the imputed financing for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in the financial statements while the employer discloses the imputed financing. OPM actuaries provide the normal cost rates which are used to calculate the imputed financing.

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:

	<u>1997</u>	<u>1996</u>
(1) Personal Services and Benefits	\$ 574,987	\$ 575,062
(2) Travel and Transportations	\$ 160,707	\$ 159,604
(3) Rental, Communication and Utilities	\$ 1,067	\$ 1,105
(4) Printing and Reproduction	\$ 185	\$ 181
(5) Contractual Services	\$ 230,347	\$ 242,024
(6) Supplies and Materials	\$ 753	\$ 1,293
(7) Equipment-Not Capitalized	\$ 322	\$ 709
(8) Grants, Subsidies and Contributions	\$ 1,194	\$ 1,214
(9) Other Expenses (Cost of Services)	<u>\$ 833</u>	<u>\$ 328</u>
(10) Total Expenses by Object Class	\$ 970,395	\$ 981,520

B. Intra Eliminations \$ (251)

C. Total \$ 970,144

D. Other Information: See Note 29, Intrafund Eliminations

Note 24. Cost of Goods Sold

A. Cost of Services Sold:

(1) Beginning Work-in-Process	\$ 0
(2) Plus: Operating Expenses	0
(3) Minus: Ending Work-in-Process	0
(4) Minus: Completed Work for Activity Retention	<u>0</u>
Cost of Services Sold	\$ 0

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

(1) Beginning Inventory - L.A.C.	\$ 342,812
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	4,207
(3) Plus: Purchases at Cost	5,152,227
(4) Plus: Customer Returns - Credit Given	0
(5) Plus: DLR Exchange Credits	0
(6) Less: Inventory Losses Realized	(36)
(7) Less: Ending Inventory - L.A.C.	(325,214)
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	(2,821)
(9) Less: Equity Transfers of Inventory to Others	(192)
(10) Plus: Equity Transfers of Inventory from Others	<u>123</u>
(11) Equals: Cost of Goods Sold from Inventory	\$5,171,106

C. Intra Eliminations \$ (2,049)

D. Total \$5,169,057

E. Other Information: The breakout of Cost of Goods Sold between governmental (public) and Intragovernmental sources reported on Lines 10A and 10B on the Statement of Operations is based upon sales revenue that is generated from within and outside the government. Both beginning and ending allowance accounts are adjusted to reflect inventory gains and losses at the latest acquisition cost (LAC) versus standard price as reported in the automated accounting system.

Under current DeCA policy, discounts earned in the Resale Stocks fund are transferred each month to the Surcharge Collection fund as revenue. This causes COGS for Resale Stocks to be higher than if the discounts earned were retained in the Resale account. Initially, the dollar value of discounts earned is recorded in the Resale Stocks fund as a reduction to COGS/expenses. At month end, these funds are reversed out of the Resale Stocks fund, and electronically transferred over to the Surcharge Collection fund as an increase to revenue. The net effect on accumulative operating results (AOR) between both funds is zero. This accounting practice has overstated expenses this fiscal year for Resale Stocks by \$17.8 million on prepared financial statements. AOR reported through FY 1996 for Resale Stocks has been overstated by \$65 million.

See Note 29, Intrafund Eliminations

Note 25. Other Expenses

	1997	1996
A. Other Expenses:		
(1) Loss on Disp of Cap Assets	\$ 0	\$ 11
(2) Inventory Losses	\$ 36	\$ 311
(3) CSRS/FERS, FEHB, FEGLI	<u>\$ 58,615</u>	<u>\$ 0</u>
Total	\$ 58,651	\$ 322

B. Other Information:

Imputed Pension and Other Retirement Benefits (ORB):

CSRS/FERS Retirement	41,193
Health	17,370
Life Insurance	52

The \$58,615 represents the imputed expense for pensions and other retirement benefits. The Office of Personnel Management (OPM) is the administrative entity for pensions and other retirement benefits (ORB). OPM accounts for and reports the pension liability in their financial statements while the employer discloses the imputed expenses. OPM actuaries provide the normal cost rates which are used to calculate the imputed expenses.

Note 26. Extraordinary Items

Not Applicable

Note 27. Prior Period Adjustments

A. Prior Period Adjustments:

(1) Prior Year Expenses	\$ (250,833)
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Footnotes

Note 28. Non-Operating Changes - (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Real Property Maintenance	\$ 544	\$ 194
(b) Capitalized Assets	\$ 0	\$ 389
(c) Net Capital Equipment	\$ 87	\$ 327
(d) Advance	\$ 1,194	\$ 0
(e) Transfers-In	\$ 518	\$ 0
(2) Donations Received	\$ 0	\$ 0
(3) Other Increases	\$ 0	\$ 0
(4) Total Increases	\$ 2,343	\$ 910
B. Decreases:		
(1) Transfers-Out:		
(a) Funds with Treasury PY	\$ (202,508)	\$ (518,907)
(b) CY - PY Approp Avail (66,666-56,442)	\$ (10,224)	\$ (56,442)
(c) DPAS Transfer	\$ 0	\$ (136)
(d) Building	\$ 0	\$ (119)
(e) PY DLA Transfer, Adjusted CY	\$ (251,600)	\$ 0
(f) Reprogramming Action FY 97-PA	\$ (19,497)	\$ 0
(g) Inventory Trans Out to Govt. Agencies	\$ 192	\$ 39,439
(h) Funds Transferred Out to Treas	\$ (50,100)	\$ (17,292)
(2) Donations	\$ 0	\$ 0
(3) Other Decreases(Unfunded Work Comp Liab)	\$ 64,945	\$ 0
(4) Total Decreases	\$ (468,792)	\$ (553,457)
C. Net Non-Operating Changes (Transfers):	\$ 466,449	\$ 552,547

Note 29. Intrafund Eliminations:

Schedule B: ELIMINATING ENTRIES

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Selling Activity:				
	Accounts <u>Receivable</u>	<u>Revenue</u>	Unearned <u>Revenue</u>	<u>Collections</u>
DeCA	2	2,300	0	2,123
TOTAL	2	2,300	0	2,123
Customer Activity:				
	Accounts <u>Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)				
A00 Trust Fund Accts	2	7	0	81
100 Intra-Approp.Reimb	0	2,042	0	2,042
400 DoD Sources (Other Defense Accts)	0	251	0	0
414 DLA (Oth than 418) Btwn DLA	0	251	0	0
Undistributed	N/A	N/A	N/A	N/A
TOTAL	2	2,300	0	2,123

Schedule C: ELIMINATING ENTRIES

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
DeCA	6,532	31,303	0	38,563
TOTAL	<u>6,532</u>	<u>31,303</u>	<u>0</u>	<u>38,563</u>

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)				
100 Navy, Marine Corp	60	1,481	0	1,642
200 Army Reimb	541	6,286	0	6,557
300 Air Force Reimb	451	13,898	0	16,199
400 Navy Reimb	1,789	8,421	0	8,247
700 Dept of Defense	86	825	0	813
Undistributed	3,605	392	N/A	5,105
TOTAL	<u>6,532</u>	<u>31,303</u>	<u>0</u>	<u>38,563</u>

Schedule D: ELIMINATING ENTRIES

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
DeCA	698	3,603	0	3,461
TOTAL	<u>698</u>	<u>3,603</u>	<u>0</u>	<u>3,461</u>

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)				
800 Other Govt Depart	698	3,603	0	3,461
TOTAL	<u>698</u>	<u>3,603</u>	<u>0</u>	<u>3,461</u>

Footnotes

For 5K00, revenues exceed earnings due to write-offs of uncollectible accounts. The proforma transaction code currently used to write-off receivables reduces earnings on the budgetary general ledger trial balance, but does not effect revenues recorded on the proprietary accounts.

Note 31. Other Disclosures

A. Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements.

:	September <u>1996</u>	September <u>1997</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Unmatched Disbursements	3,515	4,343	828	24%
Negative Unliquidated Obligations	<u>739</u>	<u>2,866</u>	<u>2,127</u>	288%
TOTALS	4,254	7,209	2,955	69%

B. Other Information: For 5K00, Quarterly joint reviews were conducted during the year to include the unliquidated obligations reviews, negative undelivered orders, stand alone disbursements, and receipts greater than disbursements.

C. Unexpended Appropriations/Appropriated Capital Used

For 5J00, these lines reflect a change in policy regarding the reporting of the Treasury Warrant. Prior to 1996, the warrant was not included in departmental reporting financial statements. Prior year appropriation amounts have been adjusted as Agency Component Adjustments. In 1997, the amount of Unexpended Appropriation (66,666) is the amount of the PY Undelivered Orders (56,442) + CY Treasury Warrant (916,438) less Appropriated Capital Used (906,214). Appropriated Capital Used is the amount of current year disbursements (1,033,650), less revenue (45,199), less CY reprogramming action (19,497), and - (62,740) change in liabilities from prior year to current year.

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(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	(\$47,992)	(\$202,508)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	3,888	9,086
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	688	23
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	1,194	934
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	0	0
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	533	439
l. War Reserves	0	0
m. Other Entity Assets	0	0
n. Total Entity Assets	(\$41,689)	(\$192,026)
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

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Department of Defense
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ASSETS, Continued	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	0	0
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>(\$41,689)</u>	<u>(\$192,026)</u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$115,920	\$196,498
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	112,053	92,969
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	13,682	14,928
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Covered by Budgetary Resources:	<u>\$241,655</u>	<u>\$304,395</u>

The accompanying notes are an integral part of these statements.

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LIABILITIES, Continued	<u>1997</u>	<u>1996</u>
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	30,365	28,211
c. Total Liabilities Not Covered by Budgetary Resources	<u>\$30,365</u>	<u>\$28,211</u>
6. Total Liabilities	<u>\$272,020</u>	<u>\$332,606</u>
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations (Note 31C)	\$66,666	\$56,442
b. Invested Capital	4,934,880	3,639,329
c. Cumulative Results of Operations	(5,284,890)	(4,192,192)
d. Other	0	0
e. Future Funding Requirements	(30,365)	(28,211)
f. Total Net Position	<u>(\$313,709)</u>	<u>(\$524,632)</u>
8. Total Liabilities and Net Position	<u>(\$41,689)</u>	<u>(\$192,026)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense

Defense Commissary Agency - Working Capital Fund - Commissary Operations

Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$906,214	\$822,258
2. Revenues from Sales of Goods and Services		
a. To the Public	37,178	32,332
b. Intragovernmental	8,021	5,770
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	0	0
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$951,413</u>	<u>\$860,360</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$970,395	\$981,520
10. Cost of Goods Sold (Note 24)	0	
a. To the Public	0	0
b. Intragovernmental	0	0
11. Depreciation and Amortization	30	355
12. Bad Debts and Writeoffs	65	1
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	530	398
14. Other Expenses (Note 25)	0	11
15. Total Expenses	<u>\$971,020</u>	<u>\$982,285</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$19,607)	(\$121,925)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$19,607)</u>	<u>(\$121,925)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Operations
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	(\$524,632)	(\$977,354)
20. Adjustments (Note 27)	(250,833)	(47)
21. Net Position, Beginning Balance, as Restated	<u>(\$775,465)</u>	<u>(\$977,401)</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(19,607)	(121,925)
23. Plus (Minus) Non Operating Changes (Note 28)	481,363	574,694
24. Net Position, Ending Balance	<u><u>(\$313,709)</u></u>	<u><u>(\$524,632)</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Operations
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(\$19,607)	(\$121,925)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	(906,214)	(822,258)
3. Decrease (Increase) in Accounts Receivable	4,534	1,863
4. Decrease (Increase) in Other Assets	(260)	40
5. Increase (Decrease) in Accounts Payable	(61,700)	(142,786)
6. Increase (Decrease) in Other Liabilities	(1,246)	3,313
7. Depreciation and Amortization	30	355
8. Other Unfunded Expenses	0	0
9. Other Adjustments	(251,064)	190
10. Total Adjustments	(\$1,215,920)	(\$959,283)
11. Net Cash Provided (Used) by Operating Activities	(\$1,235,527)	(\$1,081,208)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	\$0	\$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$916,438	\$878,700
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	271,097	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(202,508)	(518,907)
23. Net Appropriations	\$1,390,043	\$1,397,607

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Operations
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
	<hr/>	<hr/>
29. Net Cash Provided (Used) by Financing Activities	\$1,390,043	\$1,397,607
	<hr/>	<hr/>
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	\$154,516	\$316,399
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	<u>(202,508)</u>	<u>(518,907)</u>
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u><u>(\$47,992)</u></u>	<u><u>(\$202,508)</u></u>
 Supplemental Disclosure of Cash Flow Information:		
	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$530	\$398
 Supplemental Schedule of Financing and Investing Activity:		
	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

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Footnotes

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMMISSARY OPERATIONS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997**

Note 1. Significant Accounting Policies

A. Basis of Presentation:

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers Act. They have been prepared from the financial records of the Department in accordance with DoD Accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity:

DeCA Headquarters maintains overall program and fund control for funds distribution and execution reporting. The headquarters staff issues fund targets to the three CONUS commissary regions and to the European region.

On October 1, 1996, DeCA was inaugurated by the Department of Defense as a performance based organization (PBO). PBO's are part of an overall Government reinvention program called the National Performance Review, sponsored by the White House and managed by the Vice President, who nominated DeCA as one of the eight Federal Agencies in March 1996, to become a PBO. DeCA's PBO status will allow the Agency to become more efficient and business-like in its management of commissaries worldwide.

On December 11, 1996, the Under Secretary of Defense (Comptroller) canceled the Defense Business Operations Fund and established four funds: the Army Working Capital Fund, the Navy Working Capital Fund, the Air Force Working Capital Fund, and the Defensewide Working Capital Fund. Collectively, the four funds are known as the Defense Working Capital Funds (DWCF). The DWCF embodies the principles of the National Performance Review: cutting unnecessary spending, servicing customers, empowering employees, and helping organizations solve their own problems.

Centralized accounting support for the CONUS regions, Headquarters and the Operations Support Center (OSC) is provided by the Defense Finance and Accounting Service Columbus Center (DFAS-CO), at Columbus, Ohio. The Defense Business Management System (DBMS) is used at DFAS-CO to account for the DWCF Commissary Operations. DBMS provides complete accounting control of funds distribution, commitments, obligations, expenses, disbursements, collections and reimbursements. The system also produces financial reports containing the results and status of operations. CONUS region liaison offices interface with DFAS for payroll matters and other accounting requirements.

Footnotes

The Commissary Operations Fund is used for all civilian labor and related personnel costs and operating, equipment and supply costs above the commissary level.

Centralized accounting support for the European Region is provided by the Subsistence Finance and Accounting Office (SFAOE) in Germany. The Standard Army Finance & Accounting System (STANFINS) is used for all DeCA accounting activity in Europe.

Effective October 1994, DFAS-CO assumed full responsibility for the preparation and submission of agency-level reports for DeCA. Both centralized accounting support offices provide accounting reports to the Agency Reporting Division (DFAS-CO-AC), where they are consolidated and submitted to the Departmental Accounting Office at the DFAS-Indianapolis Center.

In CONUS, resource management personnel in region liaison offices input commissary operations funded commitments, obligations and expenses into the DBMS system over dedicated communication lines. Supporting documents are forwarded to DFAS-CO, while copies are also retained at the regions. The regions also perform reviews of unliquidated obligations. DFAS-CO maintains DeCA's CONUS activity records, process and issue billings, provides commercial accounts service, process travel and permanent change of station (PCS) payment, provides collection and disbursement services, and provides civilian payroll services for those DeCA organizations paid in DBMS. They also provide DeCA with activity reports for DeCA funds executed through DFAS-CO.

The European Region obtains support from the SFAOE to include accounting and reporting for assigned funds; commercial accounts for off shore acquisitions; collection/disbursement services; billing; processing TFO/TBO transactions and travel/PCS. Accounting reports from STANFINS are provided monthly to the Region, DFAS-CO and DeCA Headquarters by the SFAOE.

The OSC was provisionally established December 4, 1994, and became fully operational on October 1, 1995. The Center provides direct operational support to commissaries, regions, and zone managers. Its functional elements include: contracting, accounting, transportation, marketing, logistics, and information operations. The OSC is organized into multi-functional business units (teams) around major business processes. The OSC has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption; accounting for redemptions and losses; and processing documentation to return the cash to the resale stock fund.

Collections affect all three funds provided DeCA to operate commissaries. Daily commissary sales receipts and surcharge collections (five percent added to sales price at checkout) are deposited into the DWCF Resale Stocks account and the Commissary Surcharge Collections account, respectively. The face values of merchandise coupon redemptions are deposited into Commissary Resale Stocks; reimbursement for coupon handling goes into the DWCF Commissary Operations account.

C. Budget and Budgetary Accounting:

Budget authority is received on the DD Form 1105R, Apportionment and Reapportionment Schedule. For Commissary Operations, budget authority is apportioned on the DD Form 1105R. This fund operates subject to the provisions of 31 USC 1517, relevant sections of 10 USC and DoD 1330.17-R.

D. Basis of Accounting:

Transactions are recorded on an accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting/reporting is performed in compliance with OMB requirements.

E. Revenues and Other Financing Sources:

Commissary Operations revenues are generated from coupon handling fees and from miscellaneous services provided for authorized customers. Revenues are recognized when earned.

F. Accounting for Intra-governmental Activities:

These statements are prepared net of intra-agency eliminations.

G. Funds with the U.S. Treasury and Cash:

DeCA's fund resources are maintained in Treasury accounts. It's cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances.

H. Foreign Currency: Not Applicable**I. Accounts Receivable:**

The accounts receivable is presented in the Statement of Financial Position. This account includes accounts and refunds receivable. Allowances for uncollectible accounts are based upon analysis of receivables aged over 180 days old.

J. Loans Receivable: Not Applicable**K. Inventories:** Not Applicable**L. Investments in U. S. Government Securities:** Not Applicable

Footnotes

M. Property and Equipment:

DeCA utilizes the Defense Property Accountability System (DPAS) to account for property and equipment. This data is interfaced with DBMS and monthly reconciliations are performed. DPAS does not interface with STANFINS; therefore, journal vouchers are prepared to update the system. The monthly property and equipment reports are produced from DPAS.

N. Prepaid and Deferred Charges: Not Applicable

O. Leases: Not Applicable

P. Contingencies: Not Applicable

Q. Accrued Leave:

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balance for annual leave is adjusted at the end of the fiscal year to reflect current pay rates for the leave that is earned but not taken. Sick and other types of nonvested leave are expensed as taken. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

R. Equity: Not Applicable

S. Aircraft/Ship Crashes: Not Applicable

T. Treaties for Use of Foreign Bases: Not Applicable

U. Comparative Data: Not Applicable

V. Undelivered Orders: Not Applicable

Note 2. Fund Balance With Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

	Trust Funds	Revolv- ing Funds	<u>Entity Assets</u>		Other <u>Fund</u> Types	Total
			Appro- priated Funds			
Unobligated Balance Available:						
Available	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Reserve for Anticipated Resources	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligated	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unfunded Contract Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unused Borrowing Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Treasury Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

B. Working Capital Fund Activities Below (USD(C)) Level:

	<u>Appropriated</u> Funds	<u>Entity Assets</u> Funds Collected	<u>Entity Assets</u> Funds Disbursed
Beginning Balance	\$ 0	\$ 0	\$ 0
Transfer of Cash to Others	\$ 0	\$ 0	\$ 0
Transfer of Cash from Others	\$ 0	\$ 0	\$ 0
Funds Collected	\$ 0	\$ 49,723	\$ 0
Funds Disbursed	\$ 0	\$ 0	\$ (1,033,650)
1997 Treasury Warrant	\$ 935,935	\$ 0	\$ 0
Ending Balance	\$ 935,935	\$ 49,723	\$ (1,033,650)

C. All Funds and Accounts.

	<u>NonEntity Assets</u>	
	<u>Funds Collected</u>	<u>Funds Disbursed</u>
Beginning Balance	\$ 0	\$ 0
Funds Collected	\$ 0	\$ 0
Funds Disbursed	\$ 0	\$ 0
Ending Balance	\$ 0	\$ 0

D. Other Information:

The Fund Balance with Treasury amount includes adjustments for undistributed collections of \$5,088 and undistributed disbursements of \$12,724. Also included in undistributed disbursements is a DWCF Corporate Accounts Transfer of \$30,000. The original Treasury Warrant issued for 5J00 is \$917,300. This amount decreased by \$862 directed by a Program Budget Decision, to use for anti-terrorism. Also included in the amount is \$19,497 for Reprogramming Action FY 97-PA. Collections include \$7,438 which was not reported to Treasury and therefore is not included in Treasury records. This amount is a cost recovery fee from tobacco sales from DeCA Surcharge to DeCA Operations.

Note 3. Cash, Foreign Currency and Other Monetary Assets Not Applicable

Footnotes

Note 4. Investments

Not Applicable

Note 5. Accounts Receivable

	(1) Allowance Amount <u>Due</u>	(2) Allowance For Estimated <u>Uncollectibles</u>	(3) Method <u>Used</u>	(4) Amount <u>Due</u>
A. Entity Receivables:				
Intragovernmental	\$ 3,888			\$ 3,888
Governmental	\$ 759	(71)	2%	\$ 688
B. Non-Entity Receivables:				
Intragovernmental	\$ 0	\$ 0		\$ 0
Governmental	\$ 0	\$ 0		\$ 0

C. Other Information: Allowance was based on 2% of the dollar amount of public receivables over 180 days delinquent. The amount of Intragovernmental receivables includes CY and PY undistributed collections in the amount of \$3,512.

Note 6. Other Assets Federal (Intragovernmental) and Non Federal (Governmental) Assets

Not Applicable

Note 7. Loans and Loan Guarantees, Non Federal Borrowers

Not Applicable

Note 8. Inventory, Net

Not Applicable

Note 9. Work in Progress

Not Applicable

Note 10. Operating Materials and Supplies (OM&S), Net

Not Applicable

Note 11. Stockpile Materials Net

Not Applicable

Note 12. Seized Property

Not Applicable

Note 13. Forfeited Property, Net

Not Applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net

Not Applicable

Note 15. Property, Plant and Equipment, Net

	(1) Depreci- ation Method*	(2) Service Life*	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
Classes of Fixed Assets					
A. Land			\$ 0	\$ 0	\$ 0
B. Structures, Facilities, & Leasehold Improvements			\$ 103	\$ 0	\$ 103
C. Military Equipment			\$ 0	\$ 0	\$ 0
D. ADP Software			\$ 0	\$ 0	\$ 0
E. Equipment	SL		\$ 1,142	\$1,037	\$ 105
F. Assets Under Capital Lease			\$ 0	\$ 0	\$ 0
G. Other			\$ 0	\$ 0	\$ 0
H. Natural Resources			\$ 0	\$ 0	\$ 0
I. Construction in Progress			\$ 325	\$ 0	\$ 325
Total			\$ 1,570	\$ 1,037	\$ 533

*Keys:

Depreciation Methods	Range of Service Life
SL = Straight Line	1 - 5 = 1 to 5 years
DD = Double-Declining Balance	6 - 10 = 6 to 10 years
SY = Sum of the Years' Digits	11 - 20 = 11 to 20 years
IN = Interest (sinking fund)	>20 = Over 20 years
PR = Production (activity or use method)	
OT = Other (describe)	

Other Information: As of the end of Fiscal Year 1997, completed commissaries have been transferred to the host installation. A decision is pending from the DoD Policy, Under Secretary of Defense (Comptroller) on whether the completed commissaries should remain on the property book of the Defense Commissary Agency or be transferred to the installation. The pending decision should also determine if the property should be carried on the property account of the Defense Working Capital Fund or the Titleholder, Surcharge Collections account. Construction of commissaries is funded by Surcharge Collections. The value of commissaries completed since the inception of DeCA is \$363,015.

Note 16. Debt

Not Applicable

Note 17. Other Liabilities**A. Other Liabilities Covered by Budgetary Resources:****B. Other Information:**

Footnotes

C. Other Liabilities Not Covered by Budgetary Resources:

	<u>Non-Current Liability</u>	<u>Current Liability</u>	<u>Total</u>
1. Intragovernmental			
2. Governmental			
(a) Annual Leave	\$30,365		\$30,365
(b)	<u>0</u>		<u>0</u>
Total	\$30,365		\$30,365

Note 18. Leases

Not Applicable

Note 19. Pensions and Other Actuarial Liabilities

Not Applicable

Note 20. Net Position

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations:				
(1) Unobligated				
a. Available	\$ 0	\$ 0	\$ 0	\$ 0
b. Unavailable	\$ 0	\$ 0	\$ 66,666	\$ 66,666
(2) Undelivered Orders	\$ 0	\$ 0	\$ 0	\$ 0
B. Invested Capital	\$ 4,934,880	\$ 0	\$ 0	\$ 4,934,880
C. Cumulative Results of Operations	\$ (5,284,890)	\$ 0	\$ 0	\$ (5,284,890)
D. Other	\$ 0	\$ 0	\$ 0	\$ 0
E. Future Funding Requirements	<u>\$ (30,365)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (30,365)</u>
F. Total	\$ (380,375)	\$ 0	\$ 66,666	\$ (313,709)

G. Other Information: The amount of Unavailable Appropriated Funds represents the amount of the PY Undelivered Orders(56,442) + CY Treasury Warrant (916,438) less Appropriated Capital Used (906,214). Appropriated Capital Used is the amount of current year disbursements, less revenue, less CY reprogramming action (19,497), and + or - change in liabilities from prior year to current year.

Note 21. Taxes

Not Applicable

Note 22. Other Revenues and Financing Sources

Not Applicable

Note 23. Program or Operating Expenses

A. Operating Expenses by Object Classification:

	<u>1997</u>	<u>1996</u>
(1) Personal Services and Benefits	\$ 574,987	\$ 575,062
(2) Travel and Transportations	\$ 160,707	\$ 159,604
(3) Rental, Communication and Utilities	\$ 1,067	\$ 1,105
(4) Printing and Reproduction	\$ 185	\$ 181
(5) Contractual Services	\$ 230,347	\$ 242,024
(6) Supplies and Materials	\$ 753	\$ 1,293
(7) Equipment-Not Capitalized	\$ 322	\$ 709
(8) Grants, Subsidies and Contributions	\$ 1,194	\$ 1,214
(9) Other Expenses (Cost of Services)	<u>\$ 833</u>	<u>\$ 328</u>
(10) Total Expenses by Object Class	\$ 970,395	\$ 981,520

C. Other Information:**Note 24. Cost of Goods Sold**

Not Applicable

Note 25. Other Expenses

	1997	1996
A. Other Expenses:		
(1) Loss on Disp of Cap Assets	\$ 0	\$ 11
(2) Interest Expense	<u>\$ 0</u>	<u>\$ 0</u>
Total	\$ 0	\$ 11

B. Other Information:**Note 26. Extraordinary Items**

Not Applicable

Note 27. Prior Period Adjustments**A. Prior Period Adjustments:**

(1) Prior Year Expenses	\$ (250,833)
-------------------------	--------------

Note 28. Non-Operating Changes - (Transfers and Donations)

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Real Property Maintenance	\$ 544	\$ 194
(b) Capitalized Assets	\$ 0	\$ 389
(c) Net Capital Equipment	\$ 87	\$ 327
(d) Advance	\$ 1,194	\$ 0
(e) Transfers-In	\$ 641	\$ 0
(2) Donations Received	\$ 0	\$ 0
(3) Other Increases	<u>\$ 0</u>	<u>\$ 0</u>
(4) Total Increases	\$ 2,466	\$ 910
B. Decreases:		
(1) Transfers-Out:		
(a) Funds with Treasury PY	\$ (202,508)	\$ (518,907)
(b) 97 Approp (66,666) - PY Approp (56,442)	\$ (10,224)	\$ (56,442)
(c) DPAS Transfer	\$ 0	\$ (136)
(d) Building	\$ 0	\$ (119)
(e) PY DLA Transfer, Adjusted CY	\$ (251,600)	\$ 0
(f) Reprogramming Action FY 97-PA	\$ (19,497)	\$ 0
(2) Donations	\$ 0	\$ 0
(3) Other Decreases	<u>\$ 0</u>	<u>\$ 0</u>
(4) Total Decreases	<u>\$ (483,829)</u>	<u>\$ (575,604)</u>
C. Net Non-Operating Changes (Transfers):	\$ 481,363	\$ 574,694

D. Other Information:

Footnotes

Note 29. Intrafund Eliminations

Schedule B: ELIMINATING ENTRIES

		<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Selling Activity:					
		<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
DeCA		0	251	0	0
	TOTAL	0	251	0	0
Customer Activity:					
		<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
		<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)					
414	DLA (Oth than 418) Btwn DLA	0	251	0	0
Undistributed					
		N/A	N/A	N/A	N/A
	TOTAL	0	251	0	0

Schedule C: ELIMINATING ENTRIES

		<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
Selling Activity:					
		<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
DeCA		3,888	7,566	0	13,296
	TOTAL	3,888	7,566	0	13,296
Customer Activity:					
		<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
		<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)					
100	Navy, Marine Corp	60	1,481	0	1,642
200	Army Reimb	27	699	0	739
300	Air Force Reimb	198	5000	0	5,417
700	Dept of Defense	15	386	0	410
Undistributed					
		3,588	N/A	N/A	5,088
	TOTAL	3,888	7,566	0	13,296

Schedule D: ELIMINATING ENTRIES

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
DeCA	0	204	0	0
TOTAL	0	204	0	0
Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(SRC/CD)				
800 Other Govt. Depart	0	204	0	0
TOTAL	0	204	0	0

Note 31. Other Disclosures**A. Unmatched Disbursements, Negative Unliquidated Obligations, and Aged In-Transit Disbursements.**

DeCA Operations Appropriations	September 1996	September 1997	Dollar Change	Percent Change
Unmatched/Unprocessed Disbursements	3,515	4,343	828	24%
Negative Unliquidated Obligations	165	262	97	59%
Totals	3,680	4,605	925	25%

B. Unexpended Appropriations/Appropriated Capital Used

These lines reflect a change in policy regarding the reporting of the Treasury Warrant. Prior to 1996, the warrant was not included in departmental reporting financial statements. Prior year appropriation amounts have been adjusted as Agency Component Adjustments. In 1997, the amount of Unexpended Appropriation (66,666) is the amount of the PY Undelivered Orders (56,442) + CY Treasury Warrant (916,438) less Appropriated Capital Used (906,214). Appropriated Capital Used is the amount of current year disbursements (1,033,650), less revenue (45,199), less CY reprogramming action (19,497), and - (62,740) change in liabilities from prior year to current year.

Footnotes

***DEFENSE COMMISSARY
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COMMISSARY RESALE STOCKS

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Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS	<u>1997</u>	<u>1996</u>
1. Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	(\$148,821)	(\$105,482)
(2) Investments, Net (Note 4)	0	0
(3) Accounts Receivable, Net (Note 5)	3,344	5,290
(4) Interest Receivable	0	0
(5) Advances and Prepayments	0	0
(6) Other Federal (Intragovernmental) (Note 6)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Investments (Note 4)	0	0
(2) Accounts Receivable, Net (Note 5)	148,063	56,047
(3) Credit Program Receivables/ Related Foreclosed Property, Net (Note 7)	0	0
(4) Interest Receivable, Net	0	0
(5) Advances and Prepayments	0	0
(6) Other Non-Federal (Governmental) (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Inventory, Net (Note 8)	328,035	347,019
e. Work in Process (Note 9)	0	0
f. Operating Materials/Supplies, Net (Note 10)	0	0
g. Stockpile Materials, Net (Note 11)	0	0
h. Seized Property (Note 12)	0	0
i. Forfeited Property, Net (Note 13)	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net (Note 14)	0	0
k. Property, Plant and Equipment, Net (Note 15)	0	0
l. War Reserves	0	0
m. Other Entity Assets	99,154	154,535
n. Total Entity Assets	\$429,775	\$457,409
2. Non-Entity Assets:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Fund Balance with Treasury (Note 2)	\$0	\$0
(2) Accounts Receivable, Net (Note 5)	0	0
(3) Interest Receivable, Net	0	0
(4) Other (Note 6)	0	0

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks
Statement of Financial Position
As of September 30, 1997
(Thousands)

ASSETS, Continued	<u>1997</u>	<u>1996</u>
2. Non-Entity Assets:		
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Receivable, Net (Note 5)	\$0	\$0
(2) Interest Receivable, Net	0	0
(3) Other (Note 6)	0	0
c. Cash and Other Monetary Assets (Note 3)	0	0
d. Other Non-Entity Assets	<u>0</u>	<u>0</u>
e. Total Non-Entity Assets	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u><u>\$429,775</u></u>	<u><u>\$457,409</u></u>
LIABILITIES		
4. Liabilities Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$55,727	\$64,022
(2) Interest Payable	0	0
(3) Debt (Note 16)	0	0
(4) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	319,175	338,096
(2) Accrued Payroll and Benefits		
(a) Salaries and Wages	0	0
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3) Interest Payable	0	0
(4) Liabilities for Loan Guarantees (Note 7)	0	0
(5) Lease Liabilities (Note 18)	0	0
(6) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(7) Other Non-Federal (Governmental) Liabilities (Note 17)	<u>0</u>	<u>0</u>
c. Total Liabilities Covered by Budgetary Resources:	<u><u>\$374,902</u></u>	<u><u>\$402,118</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks
Statement of Financial Position
As of September 30, 1997
(Thousands)

LIABILITIES, Continued	<u>1997</u>	<u>1996</u>
5. Liabilities Not Covered by Budgetary Resources:		
a. Transactions with Federal (Intragovernmental) Entities:		
(1) Accounts Payable	\$0	\$0
(2) Debt (Note 16)	0	0
(3) Other Federal (Intragovernmental) Liabilities (Note 17)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1) Accounts Payable	0	0
(2) Debt (Note 16)	0	0
(3) Lease Liabilities (Note 18)	0	0
(4) Pensions and Other Actuarial Liabilities (Note 19)	0	0
(5) Other Non-Federal (Governmental) Liabilities (Note 17)	0	0
c. Total Liabilities Not Covered by Budgetary Resources	\$0	\$0
6. Total Liabilities	\$374,902	\$402,118
NET POSITION (Note 20)		
7. Balances:		
a. Unexpended Appropriations	\$0	\$0
b. Invested Capital	233,657	183,626
c. Cumulative Results of Operations	(178,784)	(128,335)
d. Other	0	0
e. Future Funding Requirements	0	0
f. Total Net Position	\$54,873	\$55,291
8. Total Liabilities and Net Position	\$429,775	\$457,409

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense

Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks

Statement of Operations and Changes in Net Position

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
REVENUES AND FINANCING SOURCES		
1. Appropriated Capital Used	\$0	\$0
2. Revenues from Sales of Goods and Services		
a. To the Public	5,097,464	5,203,954
b. Intragovernmental	29,185	41,377
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes (Note 21)	0	0
6. Other Revenues and Financing Sources (Note 22)	322	1,583
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
8. Total Revenues and Financing Sources	<u>\$5,126,971</u>	<u>\$5,246,914</u>
EXPENSES		
9. Program or Operating Expenses (Note 23)	\$0	\$0
10. Cost of Goods Sold (Note 24)		
a. To the Public	5,141,668	5,296,086
b. Intragovernmental	29,438	42,109
11. Depreciation and Amortization	0	0
12. Bad Debts and Writeoffs	6,278	231
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses (Note 25)	36	311
15. Total Expenses	<u>\$5,177,420</u>	<u>\$5,338,737</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(\$50,449)	(\$91,823)
17. Plus (Minus) Extraordinary Items (Note 26)	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$50,449)</u>	<u>(\$91,823)</u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks
Statement of Operations and Changes in Net Position
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
EXPENSES, Continued		
19. Net Position, Beginning Balance, as Previously Stated	\$55,291	\$169,261
20. Adjustments (Note 27)	0	0
21. Net Position, Beginning Balance, as Restated	<u>\$55,291</u>	<u>\$169,261</u>
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(50,449)	(91,823)
23. Plus (Minus) Non Operating Changes (Note 28)	<u>50,031</u>	<u>(22,147)</u>
24. Net Position, Ending Balance	<u><u>\$54,873</u></u>	<u><u>\$55,291</u></u>

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense

Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks

Statement of Cash Flows

For the Period Ended September 30, 1997

(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(\$50,449)	(\$91,823)
Adjustments Affecting Cash Flow:		
2. Appropriated Capital Used	0	0
3. Decrease (Increase) in Accounts Receivable	(90,070)	55,714
4. Decrease (Increase) in Other Assets	18,915	65,132
5. Increase (Decrease) in Accounts Payable	(27,217)	(134,505)
6. Increase (Decrease) in Other Liabilities	0	0
7. Depreciation and Amortization	0	0
8. Other Unfunded Expenses	0	0
9. Other Adjustments	0	0
10. Total Adjustments	(\$98,372)	(\$13,659)
11. Net Cash Provided (Used) by Operating Activities	(\$148,821)	(\$105,482)
CASH FLOWS FROM INVESTING ACTIVITIES		
12. Sale of Property, Plant and Equipment	\$0	\$0
13. Purchase of Property, Plant and Equipment	0	0
14. Sale of Securities	0	0
15. Purchase of Securities	0	0
16. Collection of Loans Receivable	0	0
17. Creation of Loans Receivable	0	0
18. Other Investing Cash Provided (Used)	0	0
19. Net Cash Provided (Used) by Investing Activities	\$0	\$0
CASH FLOWS FROM FINANCING ACTIVITIES		
20. Appropriations (Current Warrants)	\$0	\$0
21. Add:		
a. Restorations	0	0
b. Transfers of Cash from Others	0	0
22. Deduct:		
a. Withdrawals	0	0
b. Transfers of Cash to Others	(105,482)	(14,286)
23. Net Appropriations	\$105,482	\$14,286

The accompanying notes are an integral part of these statements.

Principal Statements

Department of Defense
Defense Commissary Agency - Working Capital Fund - Commissary Resale Stocks
Statement of Cash Flows
For the Period Ended September 30, 1997
(Thousands)

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM FINANCING ACTIVITIES, Continued		
24. Borrowing from the Public	\$0	\$0
25. Repayments on Loans to the Public	0	0
26. Borrowing from the Treasury and the Federal Financing Bank	0	0
27. Repayments on Loans from the Treasury and the Federal Financing Bank	0	0
28. Other Borrowings and Repayments	0	0
	\$105,482	\$14,286
29. Net Cash Provided (Used) by Financing Activities	\$105,482	\$14,286
30. Net Cash Provided (Used) by Operating, Investing and Financing Activities	(\$43,339)	(\$91,196)
31. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	(105,482)	(14,286)
32. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	(\$148,821)	(\$105,482)

Supplemental Disclosure of Cash Flow Information:

	<u>1997</u>	<u>1996</u>
33. Total Interest Paid	\$0	\$0

Supplemental Schedule of Financing and Investing Activity:

	<u>1997</u>	<u>1996</u>
34. Property and Equipment Acquired Under Capital Lease Obligations	\$0	\$0
35. Property Acquired Under Long-Term Financing Arrangements	\$0	\$0
36. Other Exchanges of Non-cash Assets or Liabilities	\$0	\$0

The accompanying notes are an integral part of these statements.

Principal Statements

The accompanying notes are an integral part of these statements.

***DEFENSE COMMISSARY
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***WORKING CAPITAL
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COMMISSARY RESALE STOCKS

***FOOTNOTES TO THE
PRINCIPAL STATEMENTS***

Footnotes

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMMISSARY RESALE STOCKS
NOTES TO THE PRINCIPAL STATEMENTS
AS OF SEPTEMBER 30, 1997**

Note 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the Chief Financial Officers Act. They have been prepared from the financial records of the Department in accordance with DoD Accounting policies which are summarized in this note. These statements, therefore, are different from the financial reports, also prepared by the DoD pursuant to OMB directives, that are used to monitor and control DoD's use of budgetary resources.

B. Reporting Entity

DeCA Headquarters maintains overall program and fund control for funds distribution and execution reporting. The headquarters staff issues fund targets to the three CONUS commissary regions and to the OCONUS (European) region.

Centralized accounting support for the CONUS regions, Headquarters and the Operations Support Center (OSC) is provided by the Defense Finance and Accounting Service Columbus Center (DFAS-CO), at Columbus, Ohio. The Defense Business Management System (DBMS) is used at DFAS-CO to account for Working Capital Fund Commissary Operations. Commissary Resale Stocks are accounted for using the Standard Finance System (STANFINS). CONUS region liaison offices interface with DFAS for payroll matters and other accounting requirements.

Centralized accounting support for the European Region is provided by the 266 Theater Finance Command, at the Subsistence Finance and Accounting Office (SFAOE) in Germany. STANFINS is used for all DeCA accounting activity in Europe.

Effective October 1994, DFAS-CO assumed full responsibility for the preparation and submission of agency-level reports for DeCA. Both centralized accounting support offices provide accounting reports to the Agency Reporting Division (DFAS-CO-AC), where they are consolidated and submitted to the Departmental Accounting Office at DFAS-Indianapolis Center.

In CONUS, resource management personnel in region liaison offices input operations and surcharge-funded commitments, obligations and expenses into the DBMS system over

Footnotes

dedicated communication lines. Supporting documents are forwarded to DFAS-CO, while copies are also retained at the regions. The regions also perform reviews of unliquidated obligations.

In CONUS, obligations and receipts for subsistence delivery orders are generated simultaneously and forwarded electronically each business day from the commissaries into a computer located at the OSC. The data is loaded in the Standard Automated Voucher Examination System (SAVES), where the accounting transactions are produced. A SAVES transaction file is transmitted to the computer center at Columbus, and interfaced into the Automated System for Army Commissaries (ASAC) and STANFINS. Supporting documents are retained at the commissaries and DFAS-CO East and West Service Centers.

Milstrip Fresh Fruit and Vegetable (FF&V) requisitions are issued for resale subsistence. The requisition data is transmitted electronically from the commissary or Central Distribution Center (CDC) to the OSC computer. Each workday, the OSC computer passes a transaction file to Columbus, where the obligations are interfaced into ASAC and STANFINS.

The OSC was provisionally established December 4, 1994, and became fully operational on October 1, 1995. The OSC provides direct operational support to commissaries, regions, and zone managers. Its functional elements include: contracting, accounting, transportation, marketing, logistics, and information operations. The OSC is organized into multi-functional business units (teams) around major business processes. The OSC performs resource management functions related to CONUS stock fund bill paying, and reconciliation of CONUS stock fund inventory supply records with the financial records. The OSC has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption; accounting for redemptions and losses; and processing documentation to return the cash to the resale stock fund. The Marketing Business Unit (MBU) formed in 1994, addresses and resolves operational issues spanning Electronic Data Interface (EDI), contracting for brand name resale products, merchandising at national levels, cataloging, electronic pricing, and other support for store level operations. The MBU is part of the OSC.

The DFAS-CO East and West Service Centers generate payment vouchers for resale commercial accounts for DeCA CONUS region commissaries. The voucher and check-producing information is passed electronically from the OSC computer to DFAS-CO, where checks or EFT payments are produced and forwarded to vendors, and the accounting records are updated. DFAS-CO Service Centers retain documents to support vendor payments. DFAS-CO provides check numbers to the Service Center to update the SAVES automated bill registers. The DeCA European region commercial payments are made by the SFAOE using the Computerized Accounts Payable System (CAPS). The voucher and check producing information is generated by the Army Disbursing Office Payment System (DOPS). DeCA plans to implement SAVES in Europe during FY 98.

Due to a reengineering change, DeCA has assumed the acquisition and distribution functions of the Defense Personnel Support Center (DPSC) in support of commissaries, except

for fresh fruits and vegetables, and offshore acquisition. Contracts for specific meats, bread and dairy products are now awarded by DeCA. Requisitions for semi-perishable and perishable brand name products overseas are being supported by the DeCA Interim Business System (DIBS) and DeCA Overseas Ordering and Receiving System (DOORS). The perishables distribution center in Europe, which was used to contain DPSC wholesale stock, is now used to contain DeCA retail stock.

Collections affect all three funds provided DeCA to operate the commissaries. Daily commissary sales receipts and surcharge collections (five percent added to sales price at checkout) are deposited into the Working Capital Fund Resale Stocks account and the Commissary Surcharge Collections account, respectively. The face values of merchandise coupon redemptions are deposited into Commissary Resale Stocks; reimbursement for coupon handling goes into the Working Capital Fund Commissary Operations account.

C. Budgets and Budgetary Accounting

Budget authority is received on the DD Form 1105R, Apportionment and Reapportionment Schedule. For Resale Stocks, obligations may be incurred up to the amount of revenues generated by sales to customers. For Commissary Operations, budget authority is apportioned on the DD Form 1105R. Both funds operate subject to the provisions of 31 USC 1517, relevant sections of 10 USC and DoD 1330.17-R.

D. Basis of Accounting

Transactions are recorded on an accrual accounting and budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting and reporting is performed in compliance with OMB requirements.

E. Revenues and Other Financing Sources

Resale Stock revenues are generated from sale of inventory items to authorized commissary patrons, whether on a cash, credit/debit cards, or charge sale basis. These inventory items consist of grocery, meat, and produce. Revenues are recognized at the point of sale. Commissary Operations revenues are generated from coupon handling fees and from miscellaneous services provided for authorized customers. Revenues are recognized when earned.

F. Accounting for Intra-governmental Activities

These statements are prepared net of intra-agency eliminations.

G. Funds with the U.S. Treasury and Cash

DeCA's fund resources are maintained in Treasury accounts. Its cash receipts and disbursements are processed by the Treasury, and the balance with the Treasury represents the aggregate of all unexpended balances.

Footnotes

H. Foreign Currency Not Applicable

I. Accounts Receivable

The accounts receivable is presented in the Consolidated Statement of Financial Position. This account includes government, public, and Vendor Credit Memorandum (VCM) receivables. Allowances for uncollectible accounts are based upon analysis of receivables aged over 180 days old. During fiscal year 1997, the DeCA wrote off approximately \$5,192 in uncollectible receivables.

J. Loans Receivable Not Applicable

K. Inventories

Inventories, including operating supplies and non-consumable items, are valued at Latest Acquisition Cost as required by DoD accounting policies. Generally, these values are based on prices paid for recently acquired items. Gains and losses that result from valuation changes for inventory items are recognized and reported in the Statement of Operations and included in the calculation of the cost of goods sold.

L. Investments in U.S. Government Securities Not Applicable

M. Property and Equipment Not Applicable

N. Prepaid and Deferred Charges Not Applicable

O. Leases Not Applicable

P. Contingencies Not Applicable

Q. Accrued Leave Not Applicable

R. Equity Not Applicable

S. Aircraft/Ship Crashes Not Applicable

T. Treaties for Use of Foreign Bases Not Applicable

U. Comparative Data Not Applicable

V. Undelivered Orders Not Applicable

Note 2. Fund Balance With Treasury

A. Working Capital Fund (USD(C)) and All Other Funds and Accounts:

	Trust Funds	Revolv- ing Funds	<u>Entity Assets</u> Appro- priated Funds	<u>Other Fund Types</u>	Total
Unobligated Balance Available:					
Available	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Reserve for Anticipated Resources	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligated (but not expensed)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unfunded Contract Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unused Borrowing Authority	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Treasury Balance	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

B. Working Capital Fund Activities Below (USD(C)) Level:

	<u>Entity Assets</u> Funds Collected	Funds Disbursed
Beginning Balance	\$ 0	\$ 0
Transfer of Cash to Others	\$ 0	\$ 0
Transfer of Cash from Others	\$ 0	\$ 0
Funds Collected	\$ 5,030,623	\$ 0
Funds Disbursed	\$ 0	\$ (5,179,444)
Ending Balance	\$ 5,030,623	\$ (5,179,444)

C. All Funds and Accounts.

	<u>NonEntity Assets</u> Funds Collected	Funds Disbursed
Beginning Balance	\$ 0	\$ 0
Funds Collected	\$ 0	\$ 0
Funds Disbursed	\$ 0	\$ 0
Ending Balance	\$ 0	\$ 0

D. Other Information: Fund Balance With Treasury (5K00) reported above consists of collections and disbursements that have been reconciled to financial reports at Treasury. Funds disbursed per activity records show general ledger account balances of \$(5,195,491). The difference of \$16,047 consists of undistributed disbursements recorded in the automated accounting system, but have not yet been processed by Treasury. Funds collected per activity records show general ledger account balances of \$5,130,582. The difference of \$(99,959) consists of undistributed collections of \$(805) and PY undeposited collections of \$(99,154).

Footnotes

Last year, collections reported on the financial statements were overstated by \$99,154 over amounts reported in the automated accounting system, and receivables were understated by the same amount. This is attributed to the method of reporting undeposited collections (cash sales) in prior year. Although cash sales are recorded as receivables in the accounting system, FY 1996 year end financial statements reduced receivables by \$99,154 and reported these funds as collections. Based on a joint conference between DFAS and DeCA in April 1997, a decision was made to begin reporting cash sales as receivables on prepared financial statements.

Since collections were overstated by \$99,154 on prior year end financial statements, collections reported on current year reports must be reduced by the same amount. The net effect on reported net cash outlays and Fund Balance with Treasury between both reporting years will be zero. Although this adjustment will reconcile the reported fund balance, it greatly distorts current year net outlays for DeCA.

Note 3. Cash, Foreign Currency and Other Monetary Assets Not Applicable

Note 4. Investments Not Applicable

Note 5. Accounts Receivable

	(1) Allowance Amount Due	(2) Allowance for Estimated Uncollectibles	(3) Method Used	(4) Amount Due
A. Entity Receivables:				
Intragovernmental	\$ 3,344	\$ 0	See below	\$ 3,344
Governmental	\$ 150,723	\$ (2,660)		\$ 148,063
B. Non-Entity Receivables:				
Intragovernmental	\$ 0	\$ 0		\$ 0
Governmental	\$ 0	\$ 0		\$ 0

C. Other Information: The gross receivables of \$154,067 reported above includes undistributed collections of \$805. This adjustment amount to receivables represents the difference of reported collections between the automated accounting system and Treasury records. The gross receivables reported above includes cash sales receivables of \$101,197.

The method used for uncollectible accounts is derived by taking 10 percent of public receivables that are aged over 180 days delinquent. During FY 97 the allowance account for uncollectible receivables was adjusted accordingly at the time of the collection or write-off. In FY 97, DeCA wrote off approximately \$5,192 in uncollectible receivables.

Aggressive efforts taken by DeCA, DFAS-CO and SFAOE have reduced the outstanding resale charge sale receivables. The implementation of credit card procedures for accepting credit cards from the appropriated fund customers have contributed to the government receivables being reduced from \$5.7 million at the end of September 1996, to \$3.3 million at the end of September

1997. At this time, the use of credit cards by appropriated fund customers has been limited to CONUS, pending implementation of POS-M in the overseas areas. Full implementation of POS-M will be completed in FY 99. Even though the use of credit cards by non-appropriated fund customers reduced receivables in the area, the overall increase during FY 97 was attributed to the transfer of tobacco products to AAFES and NEXCOM. DeCA sold approximately \$40.4 million of existing inventory to the exchanges during FY 97.

Note 6. Other Assets Federal (Intragovernmental) and Non Federal (Governmental) Assets Not Applicable

Note 7. Loans and Loan Guarantees, Non Federal Borrowers Not Applicable

Note 8. Inventory, Net

	(1) <u>Inventory Amount</u>	(2) <u>Allowance For Losses</u>	(3) <u>Inventory, Net</u>	(4) <u>Valuation Method</u>
A. Inventory Categories:				
(1) Held for Current Sale	\$325,214	2,821	328,035	a
(2) Held in Reserve for Future Sale				
(3) War Reserve Materiel				
(4) Excess, Obsolete, and Unserviceable				
(5) Held for Repair				
Total	\$325,214	2,821	328,035	

B. Restrictions on Inventory Use, Sale, or Disposition:

C. Other Information: Inventory Held for Current Sale includes inventory goods ready for sale and inventory-in-transit. Inventory allowance reported on the financial statements values inventory at the latest acquisition cost (LAC) based on sales revenue. The allowance for gains/losses (GLAC 1529) was adjusted based on the computation of Cost of Goods Sold.

Note 9. Work in Progress Not Applicable

Note 10. Operating Materials and Supplies (OM&S), Net Not Applicable

Note 11. Stockpile Materials Net Not Applicable

Note 12. Seized Property Not Applicable

Note 13. Forfeited Property, Net Not Applicable

Note 14. Goods Held Under Price Support and Stabilization Programs, Net Not Applicable

Note 15. Property, Plant and Equipment, Net Not Applicable

Note 16. Debt Not Applicable

Note 17. Other Liabilities Not Applicable

Footnotes

Note 18. Leases Not Applicable

Note 19. Pensions and Other Actuarial Liabilities Not Applicable

Note 20. Net Position

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated,				
a. Available	\$ 0	\$ 0	\$ 0	\$ 0
b. Unavailable	\$ 0	\$ 0	\$ 0	\$ 0
(2) Undelivered Orders	\$ 0	\$ 0	\$ 0	\$ 0
B. Invested Capital	\$ 233,657	\$ 0	\$ 0	\$ 233,657
C. Cumulative Results of Operations	\$(178,784)	\$ 0	\$ 0	\$(178,784)
D. Other	\$ 0	\$ 0	\$ 0	\$ 0
E. Future Funding Requirements	\$ 0	\$ 0	\$ 0	\$ 0
F. Total	\$ 54,873	\$ 0	\$ 0	\$ 54,873

G. Other Information: Invested Capital includes the initial assets capitalized in October 1991, the inventories capitalized in October 1995 due to assume the acquisition and distribution of the DLA cold storage functions, the inventories decapitalized in October 1995 due to transfer of the Troop Issue functions to the Air Force, and the cumulative funds transferred to Treasury.

Note 21. Taxes Not Applicable

Note 22. Other Revenues and Financing Sources

	1997	1996
A. Other Revenues and Financing Sources:		
(1) Other Miscellaneous Gains	\$ 322	\$ 1,583
(2)	\$ 0	\$ 0
Total	\$ 322	\$ 1,583

B. Other Information: The miscellaneous gain account on the general ledger is used to record the write-off of uncollectible receivables (Bad Checks, Charge Sales), the cash sales adjustments, and the miscellaneous checks received from claims filed as a result of Report of Surveys, Transportation Discrepancy Reports, and the Report of Discrepancy (RODs). DFAS-CO prepares a JV monthly to move the amount of the write-offs of charge sales and bad checks out of the Other Miscellaneous Gains account to the Allowance for Loss on Receivables account. Depending on the net volume between write-offs and collections during the fiscal year, this account may have either a debit (loss) or credit (gain) balance on the general ledger trial balance.

Note 23. Program or Operating Expenses Not Applicable

Note 24. Cost of Goods Sold

A. Cost of Services Sold:	
(1) Beginning Work-in-Process	\$ 0
(2) Plus: Operating Expenses	0
(3) Minus: Ending Work-in-Process	0
(4) Minus: Completed Work for Activity Retention	0
Cost of Services Sold	\$ 0

B. Cost of Goods Sold from Inventory (using Latest Acquisition Cost):

(1) Beginning Inventory - L.A.C.	\$ 342,812
(2) Less: Beginning Allowance for Unrealized Holding Gains (Losses)	4,207
(3) Plus: Purchases at Cost	5,152,227
(4) Plus: Customer Returns - Credit Given	0
(5) Plus: DLR Exchange Credits	0
(6) Less: Inventory Losses Realized	(36)
(7) Less: Ending Inventory - L.A.C.	(325,214)
(8) Plus: Ending Allowance for Unrealized Holding Gains (Losses)	(2,821)
(9) Less: Equity Transfers of Inventory to Others	(192)
(10) Plus: Equity Transfers of Inventory from Others	<u>123</u>
(11) Equals: Cost of Goods Sold from Inventory	5,171,106

C. Other Information: The breakout of Cost of Goods Sold between governmental (public) and Intragovernmental sources reported on Lines 10A and 10B on the Statement of Operations is based upon sales revenue that is generated from within and outside the government. Both beginning and ending allowance accounts are adjusted to reflect inventory gains and losses at the latest acquisition cost (LAC) versus standard price as reported in the automated accounting system.

Under current DeCA policy, discounts earned in the Resale Stocks fund are transferred each month to the Surcharge Collection fund as revenue. This causes COGS for Resale Stocks to be higher than if the discounts earned were retained in the Resale account. Initially, the dollar value of discounts earned is recorded in the Resale Stocks fund as a reduction to COGS/expenses. At month end, these funds are reversed out of the Resale Stocks fund, and electronically transferred over to the Surcharge Collection fund as an increase to revenue. The net effect on accumulative operating results (AOR) between both funds is zero. This accounting practice has overstated expenses this fiscal year for Resale Stocks by \$17.8 million on prepared financial statements. AOR reported through FY 1996 for Resale Stocks has been overstated by \$65 million.

Note 25. Other Expenses

	1997	1996
A. Other Expenses:		
(1) Inventory Losses	\$ 36	\$ 311
(2) Other Losses	0	0
(3) Less: Miscellaneous Gains	<u>0</u>	<u>0</u>
Total	\$ 36	\$ 311

B. Other Information:

Note 26. Extraordinary Items Not Applicable

Note 27. Prior Period Adjustments Not Applicable

Note 28. Non-Operating Changes - (Transfers and Donations)

Footnotes

	1997	1996
A. Increases:		
(1) Transfers-In:		
(a) Inventory transfers in from others	\$ 123	\$ 0
(b) Funds Transferred in from Treasury	\$ 0	\$ 0
(2) Donations Received	\$ 0	\$ 0
(3) Other Increases	\$ 0	\$ 0
(4) Total Increases	\$ 123	\$ 0
B. Decreases:		
(1) Transfers-Out:		
(a) Inventory transfers out to government agencies	\$ (192)	\$ (39,439)
(b) Funds Transferred out to Treasury	\$ 50,100	\$ 17,292
(2) Donations	\$ 0	\$ 0
(3) Other Decreases	\$ 0	\$ 0
(4) Total Decreases	\$ 49,908	\$ (22,147)
C. Net Non-Operating Changes (Transfers)	\$ 50,031	\$ (22,147)

D. Other Information:

Note 29. Intrafund Eliminations

Schedule B:

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Receivable</u>	Revenue	Unearned <u>Revenue</u>	<u>Collections</u>
Defense Commissary Agency	<u>2</u>	<u>2,049</u>	<u>0</u>	<u>2,123</u>
 Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Payable</u>	Expenses	Advances	<u>Disbursements</u>
(RSC/CD)				
A00 - Trust Fund Account	2	7	0	81
100 - Intra-appropriation	<u>0</u>	<u>2,042</u>	<u>0</u>	<u>2,042</u>
Subtotal	<u>2</u>	<u>2,049</u>	<u>0</u>	<u>2,123</u>

Schedule C:

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Receivable</u>	Revenue	Unearned <u>Revenue</u>	<u>Collections</u>
Defense Commissary Agency	<u>2,644</u>	<u>23,737</u>	<u>0</u>	<u>25,267</u>

Footnotes

Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(RSC/CD)				
200 - Army Reimbursements	514	5,587	0	5,818
300 - Air Force Reimbursements	253	8,898	0	10,782
400 - Navy Reimbursements	1,789	8,421	0	8,247
700 - Department of Defense	71	439	0	403
Undistributed (See footnote)	<u>17</u>	<u>392</u>	<u>0</u>	<u>17</u>
Subtotal	<u><u>2,644</u></u>	<u><u>23,737</u></u>	<u><u>0</u></u>	<u><u>25,267</u></u>

Schedule D:

Selling Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Receivable</u>	<u>Revenue</u>	<u>Unearned Revenue</u>	<u>Collections</u>
Defense Commissary Agency	<u>698</u>	<u>3,399</u>	<u>0</u>	<u>3,461</u>
Customer Activity:	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>
	Accounts <u>Payable</u>	<u>Expenses</u>	<u>Advances</u>	<u>Disbursements</u>
(RSC/CD)				
800 - Other Govt. Departments	<u>698</u>	<u>3,399</u>	<u>0</u>	<u>3,461</u>
TOTAL ALL SCHEDULES	<u>3,344</u>	<u>29,185</u>	<u>0</u>	<u>30,851</u>

Footnote: The undistributed amount of \$17 reported above represents undistributed collections between Treasury records and the automated accounting system for intragovernmental receivables. The undistributed amount of \$392 reported above represents the difference between intragovernmental revenue and earnings in the automated accounting system. Revenues exceed earnings due to write-offs of uncollectible accounts. The proforma transaction code currently used to write-off receivables reduces earnings on the budgetary general ledger and subsidiary receivable ledger, but does not effect revenues recorded on the proprietary accounts.

Note 30. Contingencies

Not Applicable

Note 31. Other Disclosures

A. Unmatched Disbursements, Negative Unliquidated Obligations, and Totals

Footnotes

97 X 4930.5K00	September 1996	September 1997	Change	Percent Change
Unmatched Disbursements	0	0	0 reduction	0 % reduction
Negative Unliquidated Obligations	574	2,604	(2,030) reduction	(354) % reduction
Aged In-Transit Disbursements	0	0	0 reduction	0 % reduction
Totals	574	2,604	(2,030) reduction	(354) % reduction

B. Other Information: Quarterly joint reviews were conducted during the year to include the unliquidated obligations reviews, negative undelivered orders, stand alone disbursements, and receipts greater than disbursements.

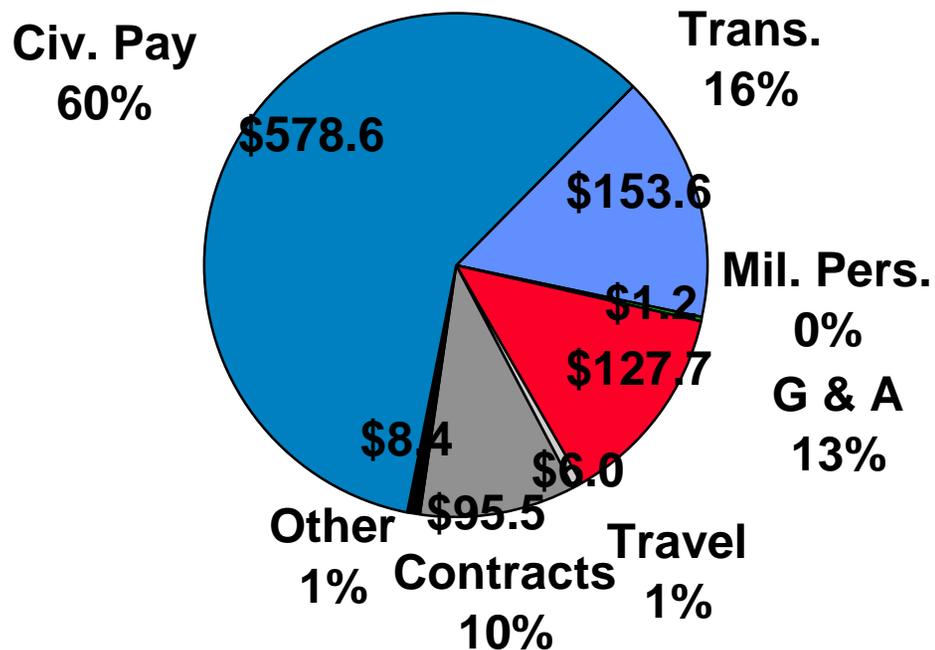
***DEFENSE COMMISSARY
AGENCY***

***WORKING CAPITAL
FUND***

***SUPPLEMENTAL FINANCIAL
AND MANAGEMENT
INFORMATION***

DeCA DWCF COMMISSARY OPERATIONS

COST PER DOLLAR SALES (\$ IN MILLIONS) FY 97



GROSS STOCK FUND SALES: \$5,126
TOTAL ACTUAL EXPENSES: \$971
COST PER DOLLAR OF SALES: \$.189 GOAL: .190

DEFENSE COMMISSARY AGENCY DEFENSE WORKING CAPITAL FUND
 COMMISSARY OPERATIONS
 OPERATING EFFICIENCY ATTRIBUTE

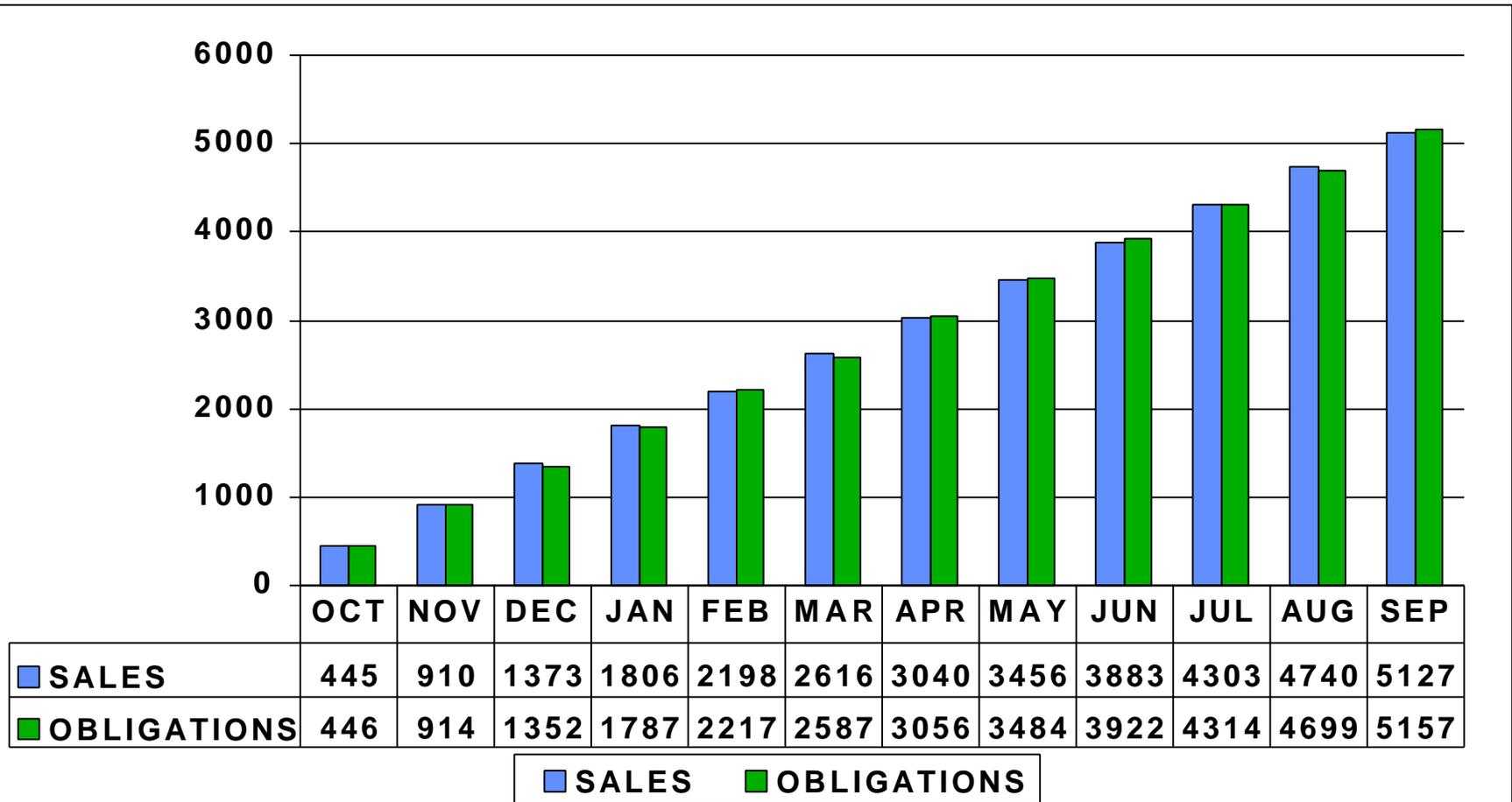
Dollars in Thousands

	1997 Unit Cost Goal	1997 Actual
Inventory Control Point Operations		
Depot Issues and Receipts		
Other Depot Costs Included in Sales:		
COSIS Inspections		
COSIS Line Item Managed		
Material/Other Costs of Sales		
Material	971,300	971,019
Customer Returns with Credit		
TOTAL SALES COSTS	971,300	971,019
Workload: Gross Stock Fund Sales	5,100,000	5,126,649
Cost Per Dollar of Sales	.190	.189

COMMISSARY RESALE STOCKS

FY 1997 OBLIGATIONS/SALES COMPARISON

(\$ MILLIONS)



**DEFENSE COMMISSARY AGENCY
DEFENSE WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS
ASSET MANAGEMENT EFFICIENCY ATTRIBUTE**

Dollars in Thousands	FISCAL YEAR 1997	FISCAL YEAR 1996
Cost of Goods Sold Expense	5,171,106	5,338,195
Average Inventory	318,719	319,192
Inventory Turnover Ratio	16.2 or 23 days	16.7 or 22 days
Sales Revenue	5,126,649	5,245,331
Average Accounts Receivable During Year	92,339	63,388
Accounts Receivable Turnover Ratio	55.5 or 7 days	82.8 or 5 days
Operating Cycle = Inventory Turnover Ratio + Accounts Receivable Turnover Ratio (days)	30 days	27 days

NOTE: Average Inventory does not include Inventory In Transit.
Average Inventory is based on the average of the monthly ending inventory during FY 97.
Average Accounts Receivable includes Public Receivables only and does not include the unrecognized Charge Sales.

**DEFENSE COMMISSARY AGENCY
DEFENSE WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS
OPERATING EFFICIENCY ATTRIBUTE**

Dollars in Thousands	1997 Unit Cost Goal	1997 Actual
Inventory Control Point Operations		
Depot Issues and Receipts		
Other Depot Costs Included in Sales:		
COSIS Inspections		
COSIS Line Item Managed		
Material/Other Costs of Sales		
Material	5,100,000	5,171,106
Customer Returns with Credit		
TOTAL SALES COSTS	5,100,000	5,171,106
Workload: Gross Stock Fund Sales	5,100,000	5,126,649
Cost Per Dollar of Sales	1.00	1.01

***DEFENSE COMMISSARY
AGENCY***

***WORKING CAPITAL
FUND***

AUDIT OPINION

Footnotes



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

February 27, 1998

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AND CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Disclaimer of Opinion on the Defense Commissary Agency Financial Statements
for FY 1997 (Project No. 7FH-2042)

The Chief Financial Officers (CFO) Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General and prescribes the responsibilities of management and auditors for the financial statements, internal controls, and compliance with laws and regulations. Directors of the DoD agencies are responsible for establishing and maintaining an internal control structure and for complying with laws and regulations applicable to DoD. Our responsibility is to render an opinion on the financial statements based on our work, and to determine whether internal controls were adequate and whether the Defense Commissary Agency (DeCA) complied with laws and regulations.

Before FY 1992, the DoD operated a significant number of commercial and industrial facilities under a revolving fund concept. In FY 1992, the revolving funds were consolidated to form the Defense Business Operations Fund (DBOF). The Inspector General, DoD, was responsible for auditing and rendering an opinion on the DBOF consolidated financial statements. In December 1996, the Under Secretary of Defense (Comptroller) restructured the DBOF into separate working capital funds.

Disclaimer of Opinion. We were unable to render an opinion on the DeCA Consolidated Financial Statements for FYs 1997 and 1996. The DeCA Consolidated Financial Statements consisted of statements for DeCA Operations and DeCA Resale Stock Fund. We did not audit the financial statements for DeCA Operations. In addition, we did not receive the financial statements in a timely manner; therefore, we could not determine the accuracy and completeness of the data reported. Also, we were unable to observe a physical inventory (77 percent of the Commissary Resale Stock Fund total assets) at any commissary. Therefore, the scope of our work was limited. For the work we did perform on the FY 1997 DeCA Resale Stock Fund Financial Statements, we reviewed selected internal controls and aspects of compliance with laws and regulations. Although progress has been made, significant deficiencies in the accounting systems and the lack of a sound internal control structure prevented the preparation of accurate financial statements. Without a sound internal control structure, management cannot rely on the FYs 1997 and 1996 DeCA Resale Stock Fund Financial Statements for making decisions or assessing performance.

Accounting Principles. The DeCA financial statements for FYs 1997 and 1996 were to be prepared in accordance with Office of Management and Budget (OMB) Bulletin No. 94-01, "Form and Content of Agency Financial Statements," November 16, 1993, as supplemented by OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," October 16, 1996. These Bulletins incorporate the

Statements of Federal Financial Accounting Concepts and Standards recommended by the Federal Accounting Standards Advisory Board, which are approved by the Secretary of the Treasury; the Director, OMB; and the Comptroller General of the United States. Footnote 1 of the FY 1997 DeCA Resale Stock Fund Financial Statements discusses the significant accounting policies that DeCA followed in preparing the financial statements.

Internal Controls. Internal controls for the FYs 1997 and 1996 DeCA Resale Stock Fund Financial Statements were not adequate. Specifically, internal controls for the accounting systems did not provide reasonable assurance that financial information was reliable. The U.S. Government Standard General Ledger had not been implemented for the Standard Finance System (STANFINS), and STANFINS was noncompliant in 5 of the 13 key accounting requirements, including property and inventory accountability and cost accounting. The Standard Finance System Redesigned (SRD-1) did not have edit checks to ensure the timely processing of disbursement data, which would affect the Fund Balance With Treasury, Accounts Receivable, and Accounts Payable. In addition, the expense accounts of the DeCA Resale Stock Fund were overstated by \$15.6 million on the FY 1996 Statement of Operations because expenses were not properly recorded.

Compliance With Laws and Regulations. We assessed compliance with laws and regulations related to the financial statements. Noncompliance with laws and regulations is a reportable condition if the noncompliance could result in material misstatements in the financial statements, or if the sensitivity of the matter would cause anyone to perceive the noncompliance as significant.

Noncompliance with laws and regulations continued to exist at the Defense Finance and Accounting Service (DFAS), the preparer of the DeCA financial statements. Accounting systems and internal controls did not completely or accurately disclose the financial condition of the agency, as required by title 31, United States Code. Under the Federal Financial Management Improvement Act of 1996 and OMB Bulletin No. 93-06, Addendum 1, "Audit Requirements for Federal Financial Statements," January 16, 1998, our work disclosed that financial management systems did not comply with Federal financial management system requirements; applicable Federal accounting standards; and the United States Government Standard General Ledger at the transaction level. Also, DFAS did not always comply with DoD 7000.14-R, the "DoD Financial Management Regulation," in the recording of Accounts Payable and Fund Balance With Treasury. DoD 7000.14-R requires Accounts Payable to exclude purchase discounts. Currently, Accounts Payable (86 percent of the total liabilities for Commissary Resale Stock Fund) is being reported at the full amount. Consequently, Accounts Payable was misstated in the FY 1997 DeCA Resale Stock Fund Financial Statements. Also, DFAS is not promptly reconciling differences shown on the Statement of Differences issued by the Department of the Treasury. Consequently, the Fund Balance with Treasury (35 percent of the Commissary Resale Stock Fund total assets) will be misstated.

The FY 1997 DeCA Resale Stock Fund Financial Statements overstated expenses by \$17.8 million. This occurred because DeCA policy required purchase discounts earned to be transferred to the Surcharge Collection Fund as revenue. Because purchase discounts are not retained in the Resale Stock Fund Financial Statements, Cost of Goods Sold for Resale Stock is overstated by the amount of the purchase discounts. Currently, DFAS and the Under Secretary of Defense (Comptroller) are determining how purchase discounts should be reported. Also, erroneous collection information was reported to the Department of the Treasury, and \$30 million in Undistributed Disbursements was transferred from the Defense Working Capital Fund Corporate Account to the Fund Balance With Treasury Account. As a result, the Fund Balance With Treasury Account could not be validated.

Additional Reports. This memorandum briefly summarizes the major deficiencies affecting DeCA. We will issue subsequent reports with more details on internal controls and compliance with laws and regulations.

A handwritten signature in black ink that reads "David K. Steensma". The signature is written in a cursive, slightly slanted style.

David K. Steensma
Deputy Assistant Inspector General
for Auditing