Annual Financial Report

Fiscal Year 2015

Defense Commissary Agency

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FOREWORD

The Defense Commissary Agency (DeCA) is a reporting entity of the Department of Defense (DoD). The Office of Management and Budget (OMB), which implements the Chief Financial Officers (CFO) Act of 1990, accordingly requires the DoD to use DeCA's consolidated financial statement information to prepare the annual DoD financial statements.

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR) or an alternative Agency Financial Report (AFR). Although DeCA is not required to prepare a separate PAR or AFR, this document, which is aligned to the statutory guidance framework, has been prepared to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability. DeCA will post its FY 2015 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2016.

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DIRECTOR'S MESSAGE

Fiscal 2015 presented another challenging year for the Defense Commissary Agency, but one also marked by some significant accomplishments and progress on new and existing initiatives that will touch the lives of customers and employees alike. Amid unsettling budgetary pressures, calls to reduce commissary funding, and continued uncertainty and speculation about the future of the commissary benefit, we never wavered in our mission to deliver a world-class commissary benefit to our authorized patrons.

- Early in the year we launched our Value Brand Program with commissaries worldwide featuring hundreds of name-brand products at everyday prices equal to or better than private label items sold commercially, with customers reaping savings of as much as 50 percent in some instances.

- In late December, the discovery of avian influenza traced to a poultry farm in Oregon triggered complex embargoes by South Korea and Japan, effectively halting the export of U.S. poultry and poultry products to those countries. Japan would later tailor its embargo to affected U.S. States, but not until July would South Korea allow the entry of any U.S. cooked poultry products for U.S. Forces Korea customers. Today, the South Korea embargo of U.S.-sourced raw poultry products continues.

- The impact of West Coast port delays that went on for 17 weeks hit critical mass in January for our Pacific commissaries, requiring us to arrange alternate shipping procedures and local source options to ensure our customers continued to get chill items like milk, juices, yogurts, and other dairy items.

- We took a giant step toward modernizing the benefit with a contract award in January to National Cash Register for development and implementation of our Enterprise Business Solution that will incrementally replace 14 legacy systems with a fully integrated retail business suite.

- To improve customer satisfaction, we began offering in-store Wi-Fi at 130 commissaries in the continental U.S., allowing commissary patrons to stay connected while shopping, enabling them to access digital coupons, our sales flyer, and "Savings Aisle" for promotional prices and more. One more way we've increased the value of the benefit – without increasing its cost.

- We reinstated our always-popular, twice-yearly case lot sale events, with the springtime version unfolding at stateside commissaries in mid-April through the end of June, and the fall event from mid-August through September.

- We took the benefit "on the road" to authorized patrons via on-site sales at more than 40 Guard and Reserve locations across the country.

- We continued the "greening" of DeCA, with our stores donating more than 2 million pounds of unsellable but wholesome food to more than 100 local food banks.

- We took a major step toward changing the culture of customer service throughout our stores by instituting a Customer Service Ambassador Program that will help us in meeting or exceeding customers' expectations at whatever location they shop.

- With the help of a professional branding firm, we developed a plan that will have all DeCA employees speaking with one voice, reflecting the agency's best qualities in every customer transaction.

All in all, fiscal year 2015 represents another year of hard work, perseverance, innovation, and dedication to our customers. As always, we look forward to the ensuing year and continued service to our deserving customers.

Joseph H. Jeu
Director

DECA-AT-A-GLANCE

Established:	Oct. 1, 1991
Headquarters:	1300 E Avenue, Fort Lee VA 23801-1800 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2015 sales:	$5.5 billion
Fiscal 2015 total revenue:	$6 billion
Fiscal 2015 operations cost:	$1.5 billion
Total employees:	More than 15,000
Total authorized households:	Approximately 5.3 million
Customer transactions:	88.6 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as 30 Sep 2015:	240

DeCA MISSION

Deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness.

DeCA VISION

Understand our Customers and Deliver a 21st Century Commissary Benefit

DeCA VALUES

We have **PASSION** for what we do!

- P: We **Pursue** excellence
  We pursue excellence *and are motivated to be the best we can be every day. We work together integrating our values, moving toward one vision. We go the extra mile to satisfy our customers, both internal and external.*
- A: We are **Accountable** and fiscally responsible
  We are accountable and fiscally responsible*, which is shown through our daily actions as we perform our jobs. We are accountable for the results of our actions. We work together in a collaborative fashion and treat our customers (internal and external), fellow coworkers, and stakeholders with integrity, respect, and honesty. We make the right decisions and are held accountable for them, keeping our values in mind when making them.*
- S: We have a **Sense** of urgency
  We have a sense of urgency *to quickly and efficiently accomplish the expectations of those who rely on us. In critical times we are responsive by providing support for those who need it most. This urgency extends to providing a taste of home and a sense of community to deployed military members and their families.*
- S: We set high **Standards**
  We are committed to setting high standards *at all levels within the organization, ensuring we excel in our ultimate goal – providing our patrons outstanding customer service, quality products at great prices, and an excellent atmosphere in which to shop. We work collaboratively in all areas of the organization to make this happen.*
- I: We value **Innovation**
  We encourage innovation *in order to progress the Agency towards greater efficiencies and effectiveness. We promote collaboration to initiate change that allows us to do our jobs more proficiently. We maintain the mindset that we can always do better and look for ways to make that happen.*
- O: We take **Ownership** of our performance
  We take ownership of our performance *by knowing what our expectations are and setting targets to exceed them. We, as individuals, ensure what we do on a daily basis supports and aligns with the Agency mission.*
- N: We are **Necessary**
  We are necessary *to the well-being and quality of life of our military families. We provide a tangible value through the benefit of savings, which benefits our patrons financially. We also provide a community value through the various community support endeavors... scholarships, spousal employment, exchange partnerships with family fitness festivals, and others. A sense of community is critical during the stressful times of spousal deployment and unfamiliar settings. We are the link in supporting our patrons for products and services that are familiar, valued, and represent their choices.*

One Vision, One Team, One DeCA!

DeCA GOALS

Goal 1 -
Provide service member and their families with a quality benefit at significant savings.

Goal 2 -
Sustain a capable, diverse and engaged civilian workforce.

Goal 3 -
Be a model organization through agility and governance.

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PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

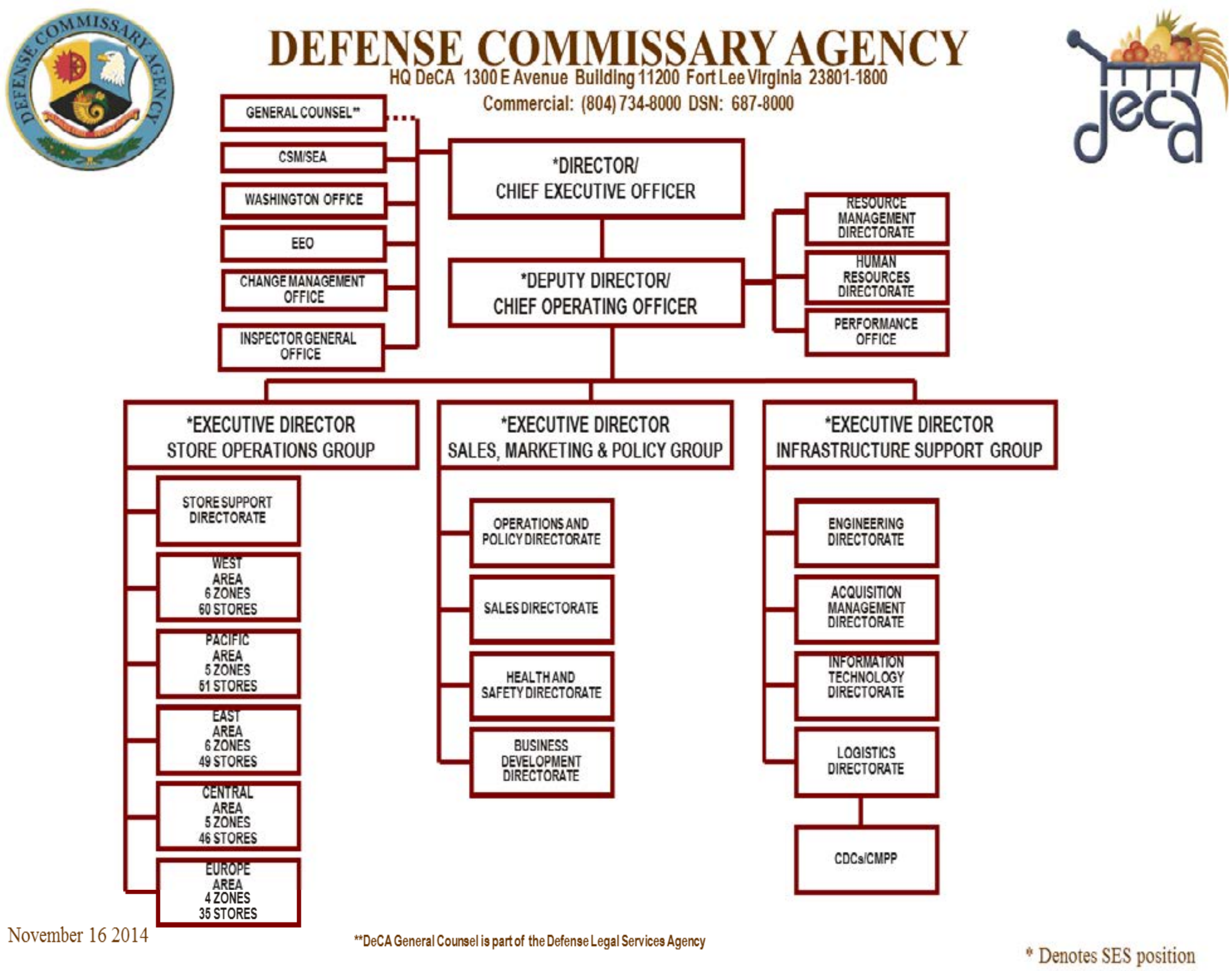
The Defense Commissary Agency (DeCA or the Agency) is a component of the DoD reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated by the four military services. In order to provide better service to military patrons at a lower cost, the Commission recommended consolidation of the four separate commissary systems, which established DeCA on October 1, 1991.

DeCA is headquartered at Fort Lee, Virginia and operates a worldwide system of 240 commissaries. Our commissaries sell food and related household items to active, Reserve, and Guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized patrons.

Five area offices provide localized management and support for the agency's commissaries. Three of these offices, East, Central, and West, manage stores in the continental United States (US) and Puerto Rico. The other two area offices, Europe and the Pacific, manage stores in Europe, Africa, and Asia. Within the operational areas, zone managers are responsible for 9 to 10 stores. Zone managers and assigned store directors jointly provide leadership and direction for their stores, building positive customer service in each commissary.

DeCA also operates central distribution centers (CDCs) in Europe and the Pacific. Field operating activities perform services for area operating elements and their commissaries, including centralized purchasing of national-brand sales items.

The organizational structure of DeCA for fiscal year (FY) 2015 is shown in the following chart:



2015 HIGHLIGHTS:

During FY 2015, DeCA's operations included commissaries with annual sales of approximately $5.5 billion and approximately 89.7 million customer transactions. DeCA operates its commissaries around the world to support the military services. Patrons include Active, Reserve, and Guard members of the Uniformed Services, retirees of these services, authorized family members, DoD civilian employees overseas, and other authorized categories. Congress authorizes DoD to operate its commissaries as a significant nonpay benefit to supplement military income as an integral part of the overall military pay and benefit package.

DeCA sells its groceries and household supplies to the military community at its approximate cost. Patrons also pay a five percent surcharge, which funds construction programs, and store equipment, including information management systems. By selling goods at cost, DeCA provides the lowest overall prices and the maximum savings benefit to our customers.

DeCA continues to maintain its audit readiness through continual improvements in the quality, accuracy, timeliness, and reliability of the financial information that is used to manage the Agency. Controls were consistently applied across a range of business processes to protect data quality and integrity, and to maintain a compliant audit trail within those processes. For each business process, controls were applied at the transaction level with data flowing from source documents to general ledger postings. Controls were also in place to produce accurate trial balances for proper period closeouts, which, in turn, allowed the preparation of financial statements that auditors could cost-effectively review and verify. In FY 2015, DeCA continued its role as a leader in the DoD's compliance with OMB Circular No. A-123, *"Management's Responsibility for Internal Control"* and Appendix A: *"Internal Control over Financial Reporting (ICOFR)."* The foundation for that program is the ongoing assessment of risk and mitigating controls and the subsequent development, refinement, and implementation of appropriate, cost-effective controls. DeCA's leadership is committed to maintaining a robust environment for strong internal controls and safeguarding the resources entrusted to the Agency.

DeCA continues to maintain a program of strong internal and operational controls. In FY 2015, DeCA's Statement of Assurance reported on financial and nonfinancial operations, and financial system compliance. DeCA's Director was able to provide an unqualified statement of reasonable assurance that DeCA's internal controls met the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and a qualified statement of reasonable assurance for Federal Financial Management Improvement Act (FFMIA). Only the continued use of legacy financial systems, which are nonintegrated and unable to produce transactions using the United States Standard General Ledger (USSGL) prevented the Director from providing an unqualified assurance statement for the FFMIA.

SOURCES OF FUNDS:

Within DeCA's working capital fund (WCF), there are two activity groups - Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for fund control purposes. Commissary Resale Stocks reflect the revenues from the sale of products by the commissary stores. Products offered include groceries, meat, produce, dairy, health and beauty aids, household products, and pet supplies.

Commissary Operations finances the operating costs of commissaries, areas, and headquarters activities. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn, is apportioned to the DeCA WCF. Specific costs include civilian and military labor, service contracts, travel, transportation of commissary goods overseas, and other indirect support. DeCA received approximately $1.3 billion in appropriation transfers during FY 2015. Commissary Operations also receives limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

DeCA's Surcharge Collections Trust Fund, which is part of the General Fund, is primarily funded from the five percent surcharge applied to patron sales at the checkout counter. The Surcharge Collections Trust Fund resources are used for store information technology, maintenance and equipment, and the commissary construction program. The Fund does not receive appropriated fund support.

STRATEGIC PLAN AND PERFORMANCE MEASURES

INTRODUCTION:

DeCA develops and structures its planning and performance process using the framework provided in the Government Performance and Results Modernization Act (GPRAMA) (Public Law 111-352) and the associated guidance in OMB Circular No. A-11, Part 6.

DeCA's Strategic Plan lays out the roadmap for the Agency's mission and vision for the future. We strive to **"Deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness."** The commissary benefit supports service members and their families by providing a safe grocery shopping environment with savings of at least 30 percent compared to civilian supermarkets. This mission serves as the driving force behind our goals as listed below.

- **Goal 1:** The first and foremost goal focuses on the valued patrons we serve, ***"Provide service members and their families with a quality benefit at significant savings."***

- **Goal 2:** The second goal hinges on the first, to enable and deliver great customer service through ***"Sustaining a capable, diverse, and engaged civilian workforce."***

- **Goal 3:** This goal expresses our corporate responsibility to be good stewards of the benefit. We provide the benefit in an innovative, efficient and fiscally responsible manner and continue to ***"Be a model organization through agility and governance."***

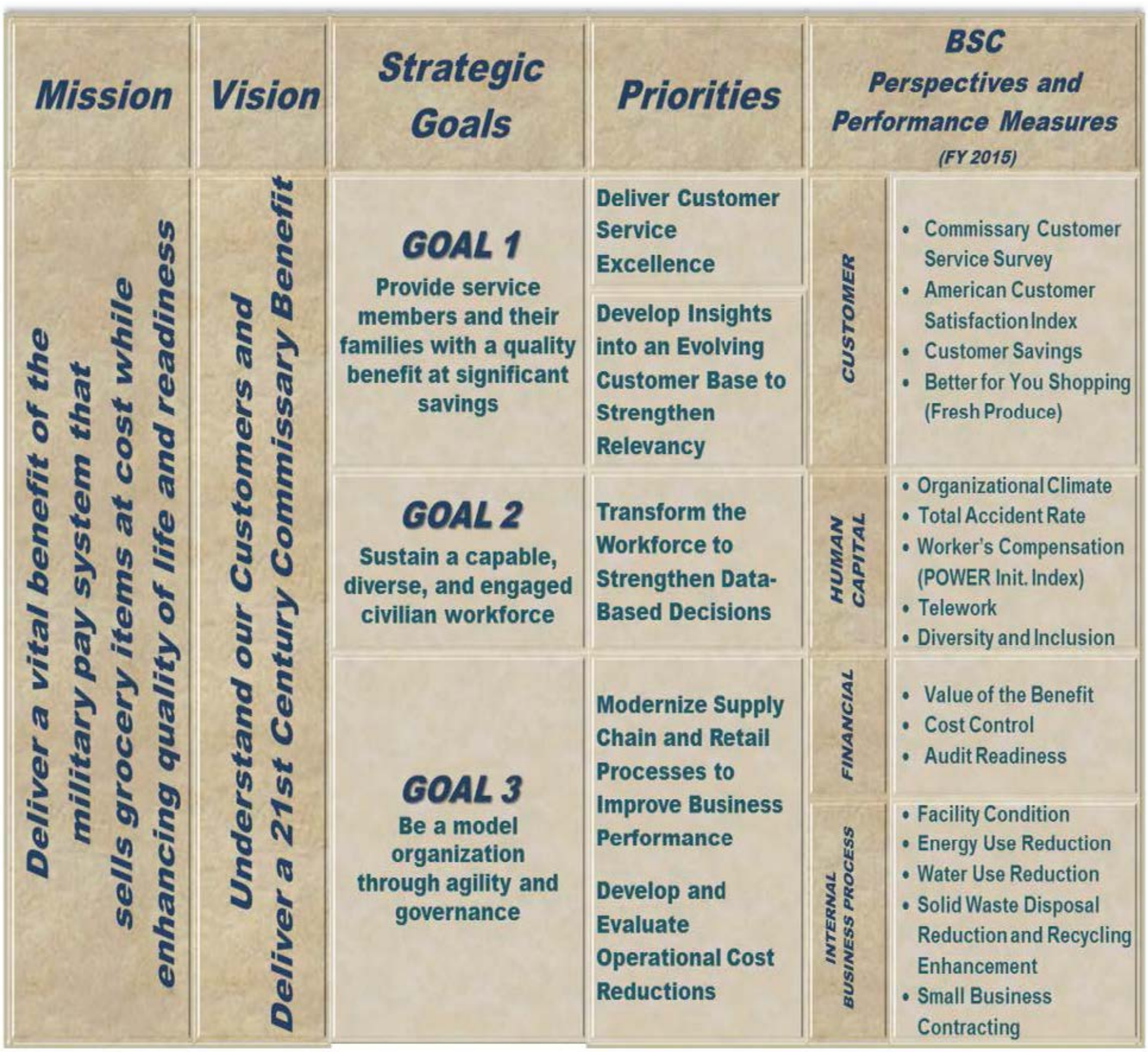
Our vision is to **"Understand Our Customers and Deliver a 21st Century Commissary Benefit."** This vision ensures a continued focus on evolving patron expectations balanced with the demands of operating in a transitioning budget environment. It provides a reference point ensuring DeCA continues to deliver the quality, value and savings our Service members and their families deserve.

ALIGNING PLANNING AND PERFORMANCE:

DeCA's Strategic Plan communicates the Agency's overarching direction, while linking to the Balanced Scorecard (BSC) to establish performance measures used to assess our progress. The BSC incorporates performance measures and targets across four perspectives to manage Agency performance from a holistic viewpoint. These perspectives address Agency performance in the areas of our customers, human capital, financial, and internal business processes. The results of the BSC are monitored and assessed quarterly to enable data based decision-making. The quarterly reviews allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes.

The following chart demonstrates key elements of the Strategic Plan's alignment with the BSC:

DeCA's Strategic Plan and Balanced Scorecard Alignment



KEY PERFORMANCE MEASURES

Key BSC Performance Measures	*FY 2012 Actual*	*FY 2013 Actual*	*FY 2014 Actual*	*FY 2015 Target*	*FY 2015 Actual*
Customer Savings	31.2%	30.5%	30%	30%	Results not available at the time of publication
Commissary Customer Service Survey (CCSS)	A *Numerical Score 4.61*	B *Numerical Score 4.35*	B *Numerical Score 4.46*	A *Numerical Score ≥ 4.60*	B *Numerical Score 4.44*
American Customer Satisfaction Index (ACSI)	81 *(Industry Average = 76)*	82 *(Industry Average = 77)*	80 *(Industry Average = 78)*	*Meet or Exceed Industry Average*	72 *(Industry Average = 76)*
Value of the Benefit	ROI = 2.10 Customer Savings to $1.00 Appropriated Costs	ROI ≥ 2.08 Customer Savings to $1.00 Appropriated Costs	ROI = $1.89 Customer Savings to $1.00 Appropriated Costs	ROI ≥ 2.00 Customer Savings to $1.00 Appropriated Costs	Results not available at the time of publication

This chart provides results for DeCA's key BSC performance measures in FY 2015. The Customer Savings result is not yet available at this time. The internal Commissary Customer Service Survey (CCSS) results fell short of expectations; however, there were notable improvements within multiple core customer service areas. Due to changes in CCSS survey administration methodology, a new baseline was established using FY 2014 results. The FY 2015 ACSI dropped from 80 to 72 and did not meet the industry average of 76, which also dropped from 78. A change in ASCI survey methodology and other factors were the primary cause. The result for the Value of the Benefit measure is not available at this time. The return on investment figure is derived from the savings to the customer divided by the cost of commissary operations. The Value of the Benefit Return on Investment (ROI) signifies the dollar amount of patron savings for every one dollar in appropriated costs.

FINANCIAL STATEMENT SUMMARY

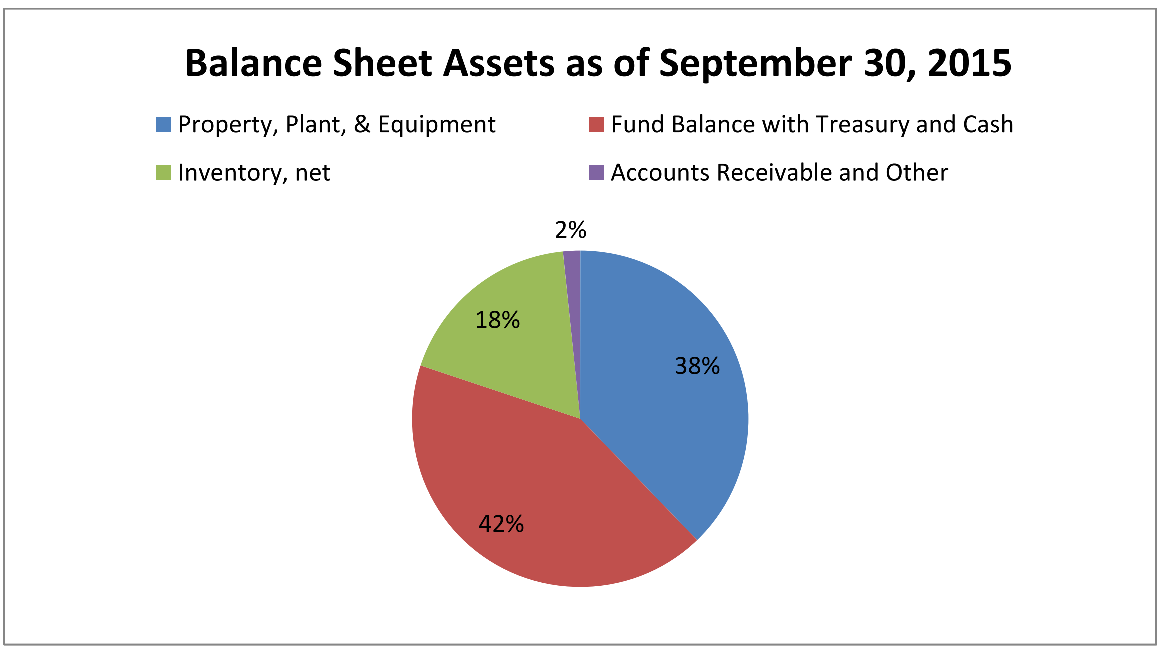
DeCA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.) 3515 (b). These consolidated financial statements have been prepared from DeCA's books and records in accordance with the formats prescribed by the OMB. These consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The consolidated financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. As such, some liabilities cannot be liquidated without legislation that provides resources to do so.

DeCA's consolidated financial statements are presented in a two-year comparative format. The following section provides a brief description of each consolidated financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

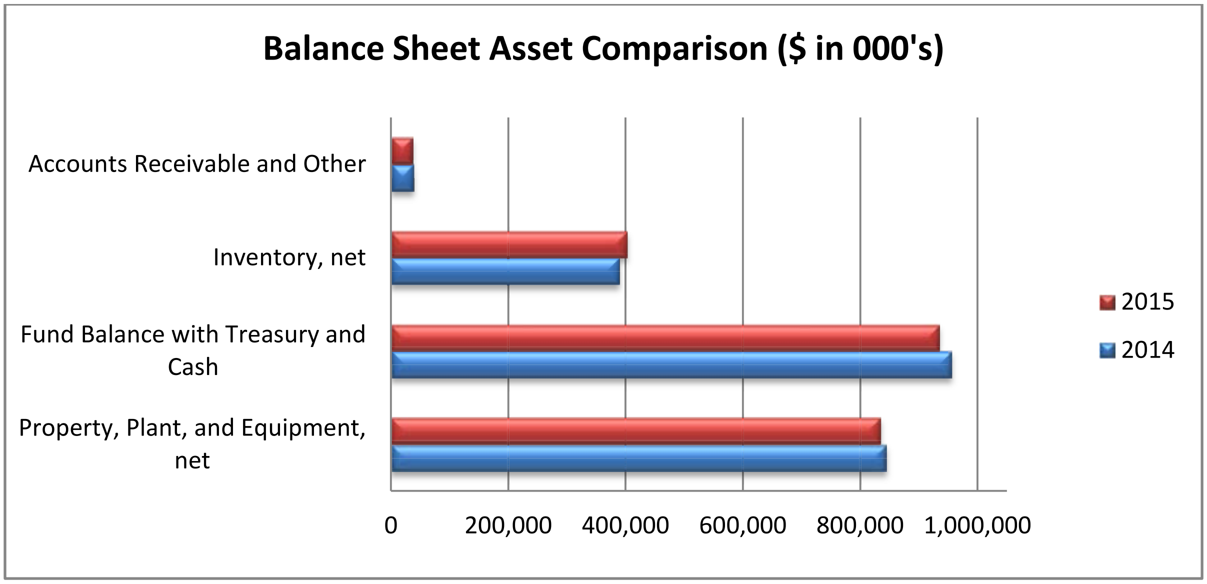
CONSOLIDATED BALANCE SHEETS:

The consolidated Balance Sheet presents the amounts available for use by DeCA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets – On September 30, 2015, DeCA reported assets of $2.2 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2015, and September 30, 2014, along with discussions of significant fluctuations.



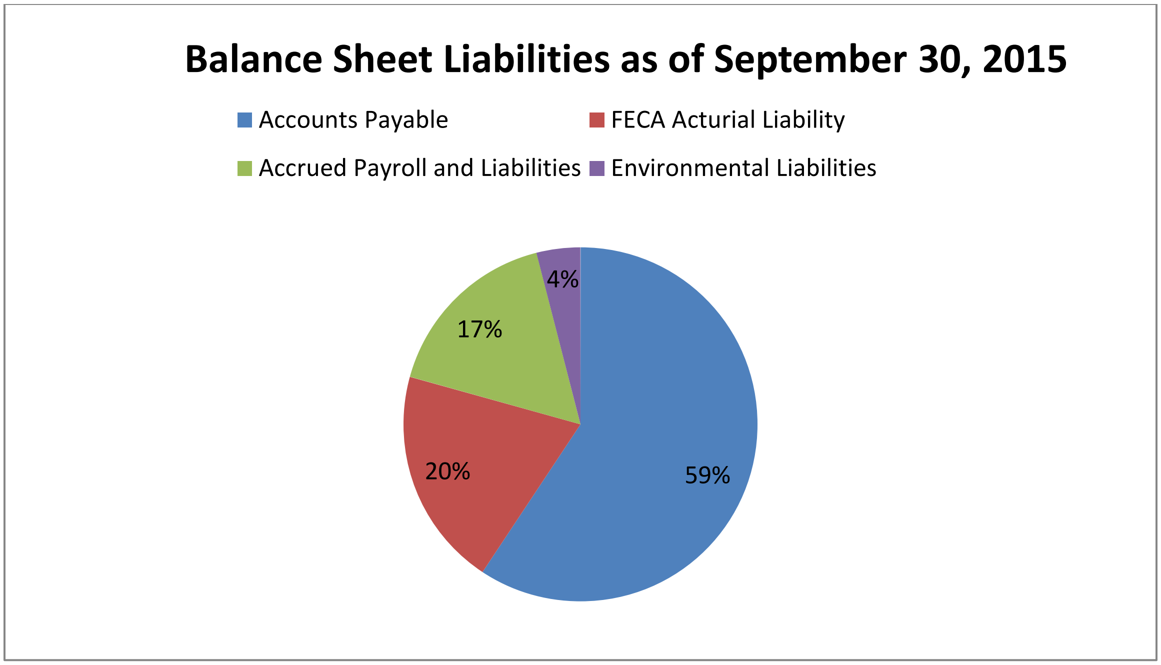
Accounts Receivable and Other comprises 2 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory, net represents 18 percent of DeCA's current year assets and is comprised of grocery, meat, and produce items held for resale to DeCA patrons. Inventory remained relatively consistent when compared to prior year balances.

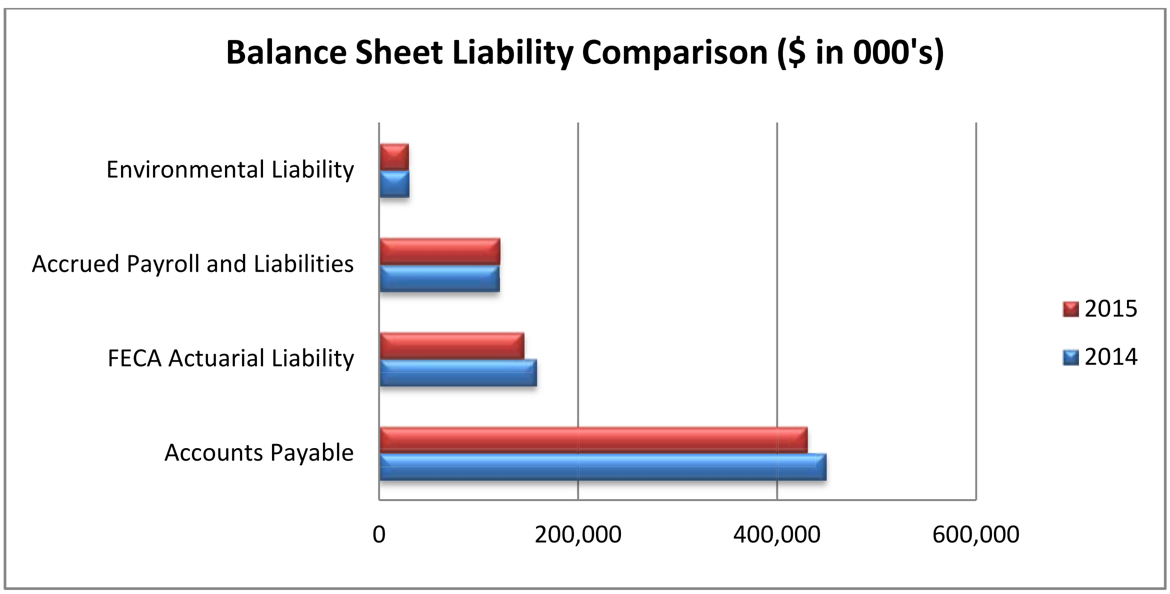
Fund Balance with Treasury (FBWT) and Cash represents 42 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash includes deposits that have been deposited in the authorized financial institution, but not processed in the accounting system due to end of month cutoffs. FBWT and Cash remained relatively consistent when compared to prior year balances.

General Property, Plant, and Equipment (PP&E), net represents *38* percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E remained relatively consistent when compared to prior year balances.

Liabilities – On September 30, 2015, DeCA reported liabilities of $725.0 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart displays DeCA's major categories of liabilities as a percentage of total liabilities.



The following chart presents comparative data of major liability balances as of September 30, 2015 and September 30, 2014 along with a discussion of fluctuations.



Environmental Liabilities comprises 4 percent of DeCA's current year liabilities and are estimated costs to clean up items such as asbestos, lead paint, and other hazardous materials from our commissaries. Environmental liabilities remained relatively consistent when compared to prior year balances.

Accrued Payroll and Liabilities comprises 17 percent of DeCA's current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay, and accrued leave. Accrued payroll and liabilities remained relatively consistent when compared to prior year balances.

Federal Employees Compensation Act (FECA) Actuarial Liability comprises 20 percent of DeCA's current year liabilities and consists of DeCA's expected liability for death, disability, and medical costs for approved workers compensation cases as well as a component for incurred, but not reported claims. The Department of Labor (DOL) calculates the liability for the DoD, who in turn allocates a proportionate amount to DeCA based upon actual workers' compensation payments to DeCA employees over the preceding three years. The actuarial liability remained relatively consistent when compared to prior year balances.

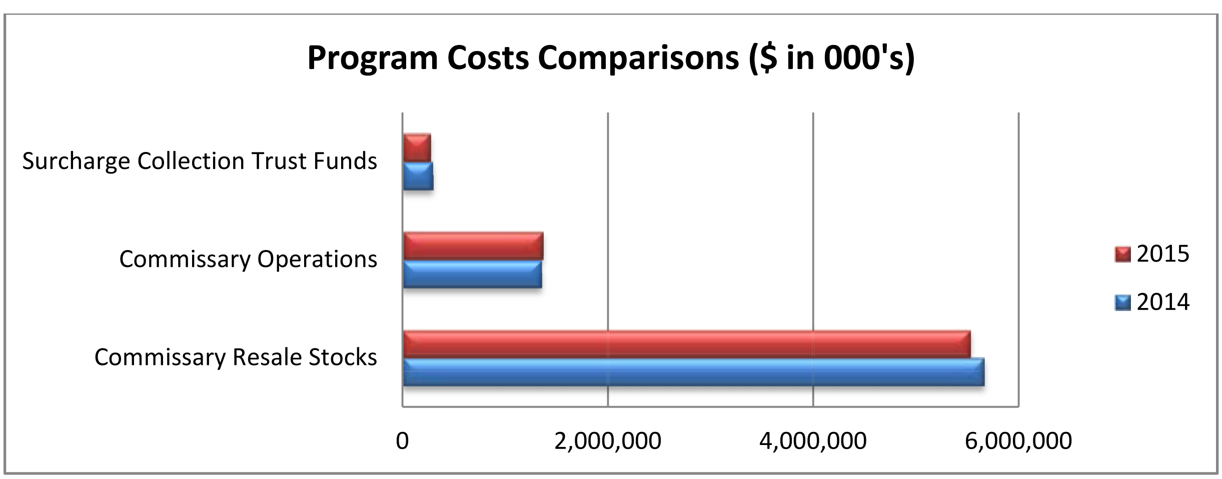
Accounts Payable comprises 59 percent of DeCA's current year liabilities, and consists of DeCA's liability for goods and services delivered or received, but not paid prior to year-end. Accounts payable remained relatively consistent when compared to prior year balances.

CONSOLIDATED STATEMENTS OF NET COST:

The consolidated Statement of Net Cost represents the annual cost of operating DeCA programs. The gross costs for DeCA less the earned revenue from grocery sales and other revenue sources are used to derive DeCA's net cost of operations. DeCA's gross costs are primarily accounted for in the three major activity groups of DeCA:

- *Surcharge Collections Trust Fund* includes the costs to construct and remodel commissary facilities and to purchase and maintain computer systems and equipment at the store level;
- *Commissary Operations* includes the associated payroll and operational costs necessary to operate the commissary system; and
- *Commissary Resale Stocks* includes the costs to purchase resale inventory.

The chart below compares the gross costs between the three major DeCA activity groups.



CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION:

The consolidated Statements of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs paid by other Federal Agencies. DeCA's net cost of operations serves to reduce net position. DeCA's net position remained relatively consistent when compared to prior year balances.

COMBINED STATEMENTS OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2015 and 2014 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources remained relatively consistent when compared to prior year balances.

CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE

OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL OVER FINANCIAL REPORTING, APPENDIX A:

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past nine years, all processes material to the consolidated financial statements have been documented and tested. In FY 2015, 226 key controls were evaluated and assessed for effectiveness. Of those key controls, 90 percent were found to be operating effectively; and 6 percent were operating adequately. The remaining 4 percent of the controls were ineffective; and although their impact is not material to the financial reports, these controls are currently undergoing corrective action plans to bring them to the required level of effectiveness.

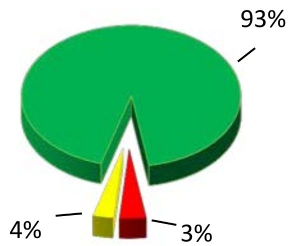
Additionally, the Internal Control Senior Assessment Team (SAT) monitors the control assessments. The SAT found that both the quarterly control assessments and the financial process improvements continue to reduce annual findings by the external auditors. The SAT also monitored the progress of the ineffective controls through formal corrective action plans, reported quarterly. All these practices have produced more efficient operations and increased savings for the Agency.

Internal Controls Over Financial Reporting

FY 2013

Testing Results:

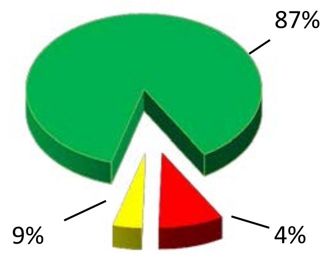
- **374 Tests Performed**
- **347 Effective (93%)**
- **17 w/Exceptions (4%)**
- **10 Ineffective (3%)**



FY 2014

Testing Results:

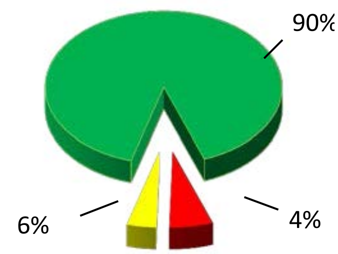
- **286 Tests Performed**
- **249 Effective (87.1%)**
- **25 w/Exceptions (8.7%)**
- **12 Ineffective (4.2%)**



FY 2015

Testing Results:

- **226 Tests Performed**
- **204 Effective (90%)**
- **14 w/Exceptions (6%)**
- **8 Ineffective (4%)**



Since the onset of the program, DeCA has provided timely submissions through the Office of the Assistant Secretary of Defense, Readiness and Force Management (OASD (R&FM)), to the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate, for the OMB Circular A-123, Appendix A Deliverables and Annual Statement of Assurance.

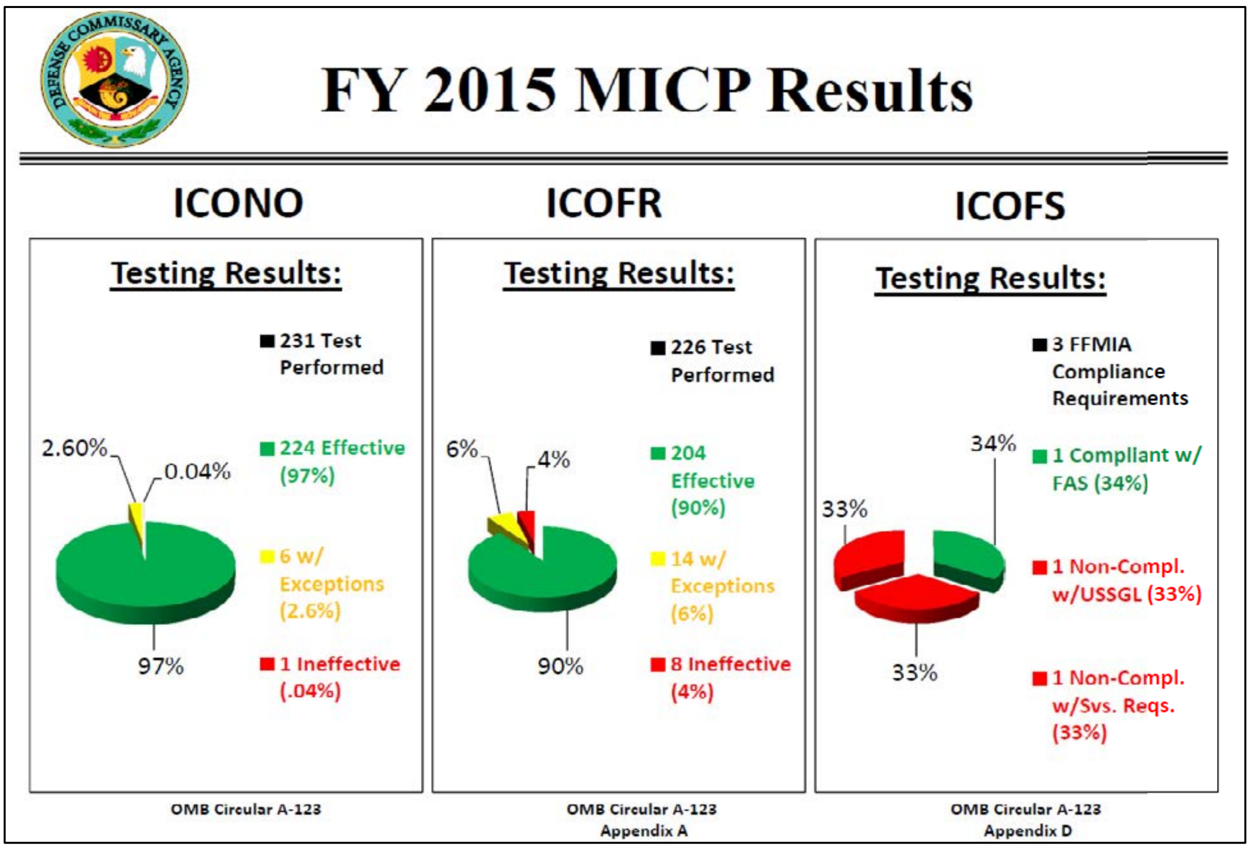
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE:

Although DeCA is not required to submit a Statement of Assurance, the DoD is required to do so; therefore, DeCA performs work to support the Department. The objectives of the system of internal accounting and administrative control of DeCA are to provide reasonable assurance that the Agency:

- Has an efficient and effective operation.
- Provides reliable financial reports.
- Complies with applicable laws and regulations.

In FY 2015, DeCA reported an Unqualified Statement of Assurance related to the effectiveness of internal controls over financial reporting and operations; however DeCA's systems did not conform to financial management systems requirements and DeCA was not in compliance with FFMIA. In making the determination, the Director considered information from various sources, such as management reviews, Inspector General and Government Accountability Office reports, the audit of the consolidated financial statements, and reviews of financial and administrative systems. The cornerstone of the FY 2015 Statement of Assurance is the Agency's financial improvement plan where we continue to utilize the OMB Circular A-123, Appendix A methodology. Through assessments, discovery, correction and monitoring, we continue to strive for increased efficiency and effectiveness utilizing this well established tool.

The following chart illustrates the results of the FY 2015 Manager's Internal Controls Program (MICP). Testing results are outlined for the three areas of internal controls: Internal Controls over Non-Financial Operations (ICONO); Internal Controls over Financial Reporting (ICOFR); and Internal Controls over Financial Systems (ICOFS).



FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT STATEMENT OF ASSURANCE:

DeCA's legacy financial systems are not compliant with federal financial management system requirements and the USSGL at the transaction level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMIA. DeCA continues to employ a system of processes and controls that adequately mitigate the risks associated with this issue. Therefore, DeCA reported a Qualified Statement of Assurance for noncompliance of the FFMIA.

LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

DeCA prepared its consolidated financial statements to report its financial position and results of operations, pursuant to the requirements established by the DoD to comply with the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*.

While DeCA's consolidated financial statements have been prepared from its books and records in accordance with U.S. generally accepted accounting principles, the consolidated financial statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records.

These consolidated financial statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The U.S. Congress cannot liquidate liabilities not covered by budgetary resources without the enactment of an appropriation, and the Federal Government, other than for contracts, can abrogate payment of all liabilities.

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PART II

PLANNING AND PERFORMANCE SECTION

<u>**BALANCED SCORECARD PERFORMANCE GOALS AND RESULTS**</u>

This is DeCA's tenth fiscal year utilizing the BSC concept for measuring performance in meeting our strategic goals and objectives. It brings together, on a single management report, key financial and nonfinancial performance measures that allow DeCA to clarify our vision and strategic objectives. As of October 2015, DeCA's accomplishments in the four perspectives of Financial, Internal Business/Process, Customer, and Human Capital for FY 2015 are summarized below.

FINANCIAL PERSPECTIVE

Performance Measure	FY 2015 Target	FY 2015 Actual
Value of the Benefit	ROI ≥$2.00 customer savings to $1.00 appropriated cost	Results not available at time of publication
Cost Control	<$1,019M	$786.7K
Audit Readiness	Unmodified Opinion	Unmodified Opinion

The **Value of the Benefit** (i.e., return on investment or ROI) to the taxpayer is a computation consisting of the savings to the customer (actual savings or 30 percent for projected annual savings) divided by the cost of commissary operations. Results are not available at this time.

The **Cost Control** measure is a comparison between the current and baseline annual costs using constant FY 2000 dollars. The target is that actual costs will not exceed the FY 2000 base year costs, when adjusted to FY 2000 dollars. We met our target for FY 2015 of less than $1,019 million.

Audit Readiness is the ability of an organization to attest that it is ready for an independent review of its internal accounting processes, financial statements, and other nonfinancial documents, and that it has all the required documents available. An unmodified audit opinion is the highest attainable level and DeCA has maintained an unmodified audit opinion for FY 2015, thus the 14th consecutive year achieving this favorable distinction.

INTERNAL BUSINESS/PROCESS PERSPECTIVE

Performance Measure	FY 2015 Targets	FY 2015 Actual
Facility Condition	86.8%	80.8%
Energy Use Reduction		
• **DoD Goal**	30% below 2003 baseline retail grocery (≤ 102.3 kBtu/sf)	Results not available at time of publication
• **DeCA Goal**	35% below retail grocery (≤143.7 kBtu/sf)	Results not available at time of publication
Water Use Reduction	≥16% below 2007 baseline (≤15.3 gal/sf)	Results not available at time of publication
Solid Waste Disposal Reduction and Recycling Enhancement	68,000 80% efficiency	Results not available at time of publication
Small Business Contracting Goals **(Assigned by DoD)**		
Small Business (SB)	46.00%	67.4%
Small Disadvantaged Business (SDB)	5.00%	18.92%
Service Disabled, Veteran-Owned, Small Business (SDVOSB)	3.00%	18.95%
Woman-Owned Small Business (WOSB)	5.00%	10.18%
Historically Underutilized Business Zone (HUBZone)	3.00%	8.74%

Facility Condition: DeCA developed its methodology for assessing facilities and calculating FCI in the early 1990s, soon after the Agency was created. The calculation uses a composite metric that indicates the physical state of a commissary. The weighted components include commissary condition (70%), refrigeration system age (25%), and energy use (5%). The FCI rating scale is from 0 to 100. A new store receives a score of 100.

Prior to 2014 DeCA used an average FCI goal of 80 across the enterprise. Given high construction costs, surcharge projections, we believe that an average FCI of 80 across the enterprise is a realistic, but challenging goal, and may be the practical limit using prior year's methodology.

In FY 2014 DeCA initiated actions to develop a more meaningful metric to report its FCI target. The result is a Facility Condition metric that identifies the percentage of DeCA facilities that meet or exceed the FCI goal of 80. This goal represents a new baseline for DeCA's Facilities Condition performance measure. DeCA's result for FY 2015 is not available at the time of this publication.

A Government Off-the-Shelf (GOTS) asset management software program, BUILDER, has been mandated for use by OSD to support the DoD standard methodology. DeCA successfully implemented BUILDER during FY 2014 setting an FCI goal of 80% for all DoD facilities. Based on the initial (FY2014) assessments in BUILDER, 86.6% of DeCA facilities have a FCI of 80% or better. Goals for the out-years are set to increase at a reasonable rate, based on available sustainment funding. The goal for FY 2015 was established at 86.8%. The FY 2015 results identify 80.8% of commissaries meet or exceed a FCI of 80. Due to a change in BUILDER inputs (i.e., additional detailed data; use of 'actual' versus 'average' costs) during FY 2015, we plan to use FY 2015 results as our new baseline.

Energy Use Reduction: The Energy Use Intensity (EUI) is measured as annual energy use in thousands of British Thermal Units (kBTUs), divided by floor area in square feet (sf). DeCA has worked hard to reduce energy use since 1993 and achieved high levels of energy efficiency prior to the establishment of Federal and DoD standards. DeCA will continue striving to reach Federal and DoD energy reduction goals, although it will be challenging due to commissary refrigeration requirements. DeCA was at a 10.5% below the 2003 baseline for 2014, based on the Federal and DoD requirements. In addition to the DoD and Federal goals, DeCA has an energy use target to enable comparison to commercial grocery stores. The comparison uses an energy use intensity index for commercial grocery stores. As of this publication we anticipate exceeding our target of 35% below the energy index for commercial buildings, with projected results of 36.6%. The final results are expected in February 2016.

Water Use Reduction: Executive Order 13423, January 2007, established the Water Use Intensity (WUI) reduction goals for all Federal facilities. It called for reducing the WUI by, on average, two percent per year from FY 2007 to FY 2015, for a total of 16 percent. DeCA's FY 2007 WUI was 18.2. Executive Order 13514, October 2009, further extended the two percent per annum consumption reduction goal to 2020. The metric is percent reduction of Water Use Intensity (WUI) in gallons per square foot per year. DeCA expresses its annual target as a cumulative percent reduction required to attain the FY 2020 goal considering the 2007 baseline. The FY 2015 scores are not yet available.

Solid Waste Reduction and Recycling Enhancements refers to reducing the Agency's volume of solid waste and associated disposal cost through increased recycling and/or reuse programs. Annual tonnage goals for FY 2012 – FY 2017 are based on Program Objective Memorandum (POM) revenue estimates. The metric is annual tons of cardboard recycled. DeCA FY 2015 results are not available at the time of publication.

Small Business Contracting: Beginning in FY 2012, a mandatory performance requirement addressing small business contracting goals was added to performance plans for DeCA's Senior Executives as required by the DoD. The goals are provided by the Under Secretary of Defense (Acquisition, Technology & Logistics) Office of Small Business Programs. DeCA has included these goals in the Agency's BSC to ensure visibility and emphasis. DeCA's results represent the total dollars awarded within each small business category as a percentage of the total eligible contract dollars awarded by the Agency for the FY (excluding products purchased for brand name and non-brand name resale). The Agency has currently exceeded the targets in all categories.

CUSTOMER PERSPECTIVE

Performance Measure	FY 2015 Target	FY 2015 Actual
Commissary Customer Service Survey (CCSS)	A	B
American Customer Satisfaction Index	Meet or Exceed Industry Average	72 (Industry Average = 76)
Sustain Customer Savings	30%	Results not available at time of publication
Better for You Shopping (Produce)	9.45% (as a % of total sales)	9.06%

The **Commissary Customer Service Survey** (CCSS) is an internal DeCA survey that is conducted annually to assess patrons' overall satisfaction with the commissary system. The CCSS rating scale is from 1 to 5, with 1 being very poor and 5 being very good. We convert the numerical survey results to letter grades. To achieve a grade of "A", a score of 4.6 or better is required. The internal Commissary Customer Service Survey (CCSS) overall results fell short of expectations; however, there were notable improvements within multiple core customer service areas. In FY 15 the overall CCSS resulted in a "B" or the numerical equivalent of 4.44. Though DeCA did not meet the FY 2015 target, the numerical indicator is an improvement over the FY13 score (4.35) and demonstrated an increase in multiple core customer service areas

The **American Customer Satisfaction Index** (ACSI) is an external survey produced annually. The ACSI is a uniform independent measure that is general enough to be comparable across sectors, industries, and organizations of the U.S. economy. The ACSI is conducted during the 4^{th} quarter of the current calendar year and reported out to the Agency during February of the following calendar year. The FY 2015 ACSI dropped from 80 to 72 and did not meet the industry average of 76, which also dropped from 78. A change in ACSI survey methodology and other factors contributed to the decrease.

Sustain Customer Savings, DeCA's FY 2015 goal is 30 percent average savings on commissary purchases as compared to the commercial stores in the United States." These savings are tracked using a comprehensive database of actual prices of items sold and scanned by DeCA and competition grocery and supercenter chains using standard industry procedures. A market basket sampling approach is used to compare non-scannable or non-standardized items like produce and meat. Our FY 2015 results are not available at the time of publication.

Better for You Shopping (Produce): In support of DoD efforts to improve the health of our military members and patrons, emphasis is placed on increasing produce consumption. The FY 2015 target percent of produce sales (excluding flowers and plants) is 9.45%**.** DeCA achieved a FY 2015 Better for you Produce percentage vs. total sales of 9.06%, which is short of the 9.45% goal. The decline in produce sales % vs. total sales was due in large part to the much lower produce inflation (.15%) vs. overall food at home inflation (2.10%)**.**

HUMAN CAPITAL PERSPECTIVE

Performance Measure	FY 2015 Target	FY 2015 Actual
Organizational Climate	Implement corrective action plans to address deficiencies	Initiatives established by workgroup were finalized
Total Accident Rate	≤ 2.15%	Results not available at time of publication
Workers' Comp: POWER Initiative Index	Meet 3 targeted POWER Initiative Goals	Exceeded 3 POWER Initiative Goals
Telework Participation	23%	22.03%
Diversity and Inclusion		
Diversity in High Grades & Total Workforce	Minorities and Women at Parity	At parity as of 09/30/15
Individuals with Targeted Disabilities	2%	1.57%
Veterans Employment Performance	Align measure with the new Veteran Employment Performance Model	DoD Model currently under development

DeCA conducted an Organizational Assessment Survey (OAS) in 2014 to assess the Agency's **Organizational Climate**. The OAS, which is administered by the Office of Personnel Management (OPM), is conducted biennially. The Agency has developed corrective action plans to address areas that need improvement, including Ethics, Civility, Fairness, Transparency, Diversity and Respect. The initiatives have been finalized. The 2016 OAS results will be assessed for improvements in those key areas as well others.

The **Total Accident Rate** is the rate in which accidents occur per 100 DeCA employees (U.S. citizens only). In compliance with DoL, DoD, and other regulatory agencies, DeCA strives to provide a safe and healthful working environment by protecting personnel from accidental death, injury, and occupational illness. The goal is to achieve a ≤2.15% accident rate reduction per year using the CY 2015 baseline. Results for CY 2015 are not available at time of publication.

Workers' Comp-POWER Initiative Index. On July 19, 2010, President Obama established a 4-year Protecting Our Workers and Ensuring Reemployment (POWER) Initiative, covering fiscal years 2011 through 2014. The POWER Initiative extends prior workplace safety and health efforts of the Federal Government by setting more aggressive performance targets. For the POWER Initiative Index, DeCA focused on three areas encompassed by the Office of Workers' Compensation Programs (OWCP). DeCA measures the Agency's results against those focus area goals as set by Department of Labor. DeCA Exceeded their 3 Power Initiative Goals in FY 2015. The three focus areas are:

- Increasing the timely filing of workers' compensation claims;
- Increasing the timely filing of wage-loss claims; and
- Reducing lost production day rates.

Telework Participation: The Department of Defense's goal is to increase the visibility and usage of the telework program and to integrate and embed its use in our mainstream operations, where appropriate. As a result, DeCA is working towards the FY 2020 DoD goal of 30% participation at least 1 time per pay period. DeCA has a 23% target set for FY 2015, however results for the fiscal year is 22.3%.

Diversity and Inclusion, in keeping with Executive Order 13583 - Establishing a Coordinated Government-wide Initiative to Promote Diversity and Inclusion in the Federal Workforce – DeCA continues to monitor its workforce demographic data to ensure that no barriers to employment and advancement of under-represented groups develop. DeCA has incorporated several measures in this category to help us evaluate our progress in this area.

- The **Diversity in High Grades and Total Workforce** measure compares DeCA's percentage of minorities and women in the overall workforce and high grades to the corresponding totals in the overall Federal workforce. DeCA's performance goal is to achieve parity (Within 5% of the corresponding measure in the overall Federal workforce). DeCA continues to focus on diversity of the feeder grades, GS-9-GS-13, to ensure a quality pipeline of candidates prepared to lead DeCA in the future. In FY 2015 DeCA achieved parity
- For **Individuals with Targeted Disabilities** DeCA seeks to achieve the Federal Government's 2 percent goal by sustaining a 2 percent growth every year to attain the 2 percent goal in 2015. In FY 2015 1.57% of DeCA employees were identified with targeted disability.
- **Veterans Onboard**: President Barack Obama made it a priority for the government to employ more veterans in the Civil Service via Executive Order (13518) in 2009. As a result, the Federal Government and Department of Defense are committed to the Veterans Hiring Initiative which aims to increase the hiring of veterans into the workforce. DeCA will be transitioning the Veterans Onboard measure to align with a new DoD benchmark that is being adopted for Veterans hiring. This model is currently under development.

NEAR AND LONG-TERM PLANS

STRATEGIC PLANNING AND PERFORMANCE:

The Agency's senior executives maintain a strategic thinking process that considers impacts to DeCA in the near and long term. They have determined the Agency's direction based on an assessment of significant impacts, ongoing collaboration, discussions, and analysis. As a result they have established Agency strategic priorities that align to the organization's Strategic Plan. These priorities include:

- Deliver customer service excellence.
- Develop insights into an evolving customer base to strengthen relevancy.
- Modernize supply chain and retail processes to improve business performance.
- Transform the workforce to strengthen data-based decisions.
- Develop and evaluate operational cost reductions.

DeCA continues to refine our efforts to gain shopper insights and be sensitive to the expectations of our patrons. We are investigating the rapidly changing technology that is becoming a significant part of how patrons shop and communicate. Concepts are being evaluated and tested as we partner with the 21st century shopper.

Modernizing DeCA's business systems and retail processes continues. This modernization will take place in defined increments over time and will eliminate redundant and costly legacy systems, improve our business performance and incorporate commercial best practices. This transition is critical to the Agency's future to ensure important capabilities such as customer relationship management, multi-channel retailing and marketing, enhanced e-commerce, inventory optimization, data accuracy and analytics are available to ensure ongoing relevancy.

In today's uncertain fiscal environment the Agency continues to carefully govern how resources are expended. The governance process, described further in this section, addresses how funding decisions are made. As the cost of doing business increases, there may be a need to realign, adjust or divest to become more efficient and appropriately resource the priorities. The formal governance process ensures transparency and a structured method of determining how funds are expended. The Agency's quarterly performance reviews ensure further analysis of investments and their data-based results to support subsequent decision-making.

GOVERNANCE AND ACCOUNTABILITY:

DeCA continues to refine our governance and decision-making processes by improving methods that determine resource allocation and ensuring Agency investments remain strategically aligned. The Agency governance process employs a prioritization model with scoring criteria to guide the evaluation of potential investments. Enterprise-level collaboration and direct involvement of executive and senior leadership is crucial in maintaining an efficient process. Collaborative discussions minimize the layers of review and streamline the decision-making process. Good stewardship requires an agile and fiscally responsible governance process if we are to remain a model government organization.

The Agency also continues its role as a leader in the DoD's compliance with OMB Circular No. A-123, *"Management's Responsibility for Internal Control"* and Appendix A: *"Internal Control over Financial Reporting."* The Appendix A methodology continues to be the basis for conducting and documenting management's assessment of internal controls for all aspects of the Agency's operation. DeCA has strengthened its foundation of budget and performance integration by reviewing and rebuilding processes for validation and testing of internal controls related to financial management by involving all areas and activities of the commissary system, to include trading partners.

In FY 2015, DeCA conducted an internal control assessment of the effectiveness of our ICOFR for the following implementation areas: Budgetary Resources (Appropriations Received, Accounts Payable, Accounts Receivable, Civilian Pay, Cash and other Monetary Assets); Critical Assets (Inventory, Personal Property, Real Property); and Other Long-Term Liabilities (Environmental Liability, Federal Employee Compensation Act Liability, Foreign National Separation Pay Liability). The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the DeCA SAT. Based on the results of this evaluation, DeCA was able to provide an unqualified statement of assurance that DeCA's ICOFR implementation areas as of June 30, 2015 were operating effectively.

DeCA's Statement of Assurance for FY 2015 reported on financial and nonfinancial operations, and financial system compliance. DeCA's Director was able to provide an unqualified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA and a qualified statement of reasonable assurance for FFMIA. Seven years into the Agency's Financial Improvement Plan, and the Appendix A methodology continues to aid in effective financial and operational processes. The Agency's embrace of this program, has resulted in cost avoidance, improved business processes, and involved functional leaders from all aspects of the organization.

CONTINUOUS PROCESS IMPROVEMENT AND INNOVATION:

DeCA's commitment to improving business processes through the DoD-wide initiative of Continuous Process Improvement (CPI) resulted in eight percent of our headquarters staff being trained as Greenbelts or Blackbelts, exceeding the DoD goal of six percent during FY 2015. Key engagements for the CPI team during the year included conducting Business Process Re-engineering (BPR) of our supply chain systems in preparation for the complete modernization of these systems into an Enterprise Business Solution (EBS). As an early adopter of the BPR process, many of our ideas and concepts were featured in the Deputy Chief Management Officer's manual for BPR, which is utilized across the DoD enterprise. A complete overhaul of the Deli/Bakery Performance Work Statement which was led by our Master Black Belt candidate is expected to improve the savings provided to our patrons in the Deli/Bakery departments by at least 10 percent. Finally, an improvement to store management reporting, developed by one of our fulltime Blackbelts, has enabled the agency to reduce contracted costs of stocking the commissary by more than $1.2M.

DeCA has an Innovation Program that provides employees access to a three-pronged method to present ideas, develop solutions, and participate in sharing concepts for improving the business. This framework consists of: (1) the IDEAS Program, which provides a structure to submit ideas for improvements, innovations, or Agency savings to a cross-functional review panel for assessment; (2) the Idea Factory, which is an electronic forum to share ideas; and (3) a periodic Director's Innovation Challenge that poses a question, issue, or thought that challenges the DeCA workforce to consider an innovative solution and provide a response.

SUMMARY

DeCA values its role in providing a benefit that enhances the quality of life and readiness of our military. As a good steward of this benefit, it is essential to strengthen a performance-driven, results-focused, agile and accountable Agency. Improvements in the Planning and Performance process and culture will translate to improved results and continued relevance for our stakeholders.

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PART III

FINANCIAL SECTION

CHIEF FINANCIAL OFFICER'S MESSAGE

I am pleased to release the Defense Commissary Agency's (DeCA's) Annual Financial Report (AFR) for fiscal year (FY) 2015. This report reflects the accountability and transparency associated with DeCA's financial position regarding commissary operations for FY 2015. As it has become customary the past several years the challenges faced by the agency persist and even seem to increase.

FY 2015 began under Continuing Resolution Authority (CRA) and lasted for most of the FY. DeCA's budget has been consistently under scrutiny by the Department of Defense (DoD) with proposed reductions culminating an a potential budget reduction of $1 billion in FY 2017. This included $200 million in a potential budget reduction for FY 2015. However, Congressional direction impacted the Department's proposal beginning in FY 2015 with the FY 2015 Omnibus; Consolidated and Further Continuing Appropriations Act, which restored $190 million of the proposed $200 million budget reduction. Even so, budgeting and executing the FY 2015 commissary operations budget presented challenges during FY 2015 to include: port delays which impacted transportation costs and required prioritization efforts to ensure continued support; contractor defaults impacted payroll execution which required the agency to fill the gap in-house until contracted services could be restored; an Office of Personnel Management (OPM) security breach required unexpected and unpredictable funding and; finally we were required to support a directed study of the commissary benefit which required funding which was not programmed.

However through all the challenges, we remained diligent in our efforts to execute the taxpayer's dollars by fully engaging in the internal governance process, seeking ways to be more efficient in our financial processes, and employing our strong internal controls program. Overall, DeCA executed approximately 94% of the Working Capital and Surcharge Funds. This is a reflection of the efforts of our Resource Management team and our PASSION for the benefit.

A few noteworthy accomplishments and initiatives that contributed to our sound financial management are:

- A standardized overseas financial operation was implemented October 1, 2014 with all Defense Working Capital Fund (DWCF) and Surcharge functions for Europe and the Pacific Theater streamlined under the oversight of the Overseas Financial Manager. To gain visibility and in preparation for the Enterprise Business Solution (EBS), the standardization of DeCA payment processes is essential, therefore SAVES Europe was modified to SAVES Overseas combining Europe and the Pacific Theater into one payment system.

- DeCA anticipated manpower execution of its FY 2015 Full Time Equivalents (FTEs) would be closer to the President's Budget targets than during the previous year (FY 2014). Manpower execution was impacted by the unplanned loss of contractor support for Deli/Bakery services in over 40 commissaries. Temporary positions were established/recruited to sustain Deli/Bakery services. By fiscal year-end contractor support had been re-established and the temporary positions removed from the Unit Manning Document (UMD).

- The Agency continued to strengthen and support its resource management community by conducting DoD Financial Management certification training for designated financial management personnel. DeCA's Resource Management workforce is fully engaged in taking classes towards the Certification Program.

DeCA has enjoyed a strong partnership with the Defense Finance and Accounting Service (DFAS), which is an integral part of our continued efforts to demonstrate the highest levels of financial accountability. This is further supported by the agency's independent auditor, CliftonLarsonAllen, rendering a favorable unmodified opinion over our FY 2015 financial statements for the 14th consecutive year.

Our sustained success has been a combined effort of our employees, managers and business partners who make it a priority to ensure that the highest quality financial data is reported. As DeCA's Chief Financial Officer, I am proud of our many accomplishments and stress the importance of increasing our efforts to cultivate a standard of excellence within our Financial Management community. I look forward in FY 2016 to furthering our fiscal achievements as DeCA continues to serve the men and women in uniform.

Lauren P. Bands, Jr.
Chief Financial Officer

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2015 and SEPTEMBER 30, 2014
(amounts in thousands)

	2015	2014
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 839,408	$ 869,956
Accounts receivable and other	39	77
Total intragovernmental assets	839,447	870,033
Cash	95,076	85,597
Accounts receivable and other assets, net	36,385	38,455
Inventory, net (Note 3)	402,417	389,080
General property, plant, and equipment, net (Note 4)	834,506	844,330
Total assets	$ 2,207,831	$ 2,227,495
Liabilities (Note 5)		
Intragovernmental:		
Accounts payable	$ 47,878	$ 48,054
Accrued Payroll and Liabilities	36,969	37,294
Total intragovernmental liabilities	84,847	85,348
Accounts payable	382,142	401,177
Federal Employees Compensation Act actuarial liability	145,087	158,094
Environmental liabilities	28,985	29,695
Accrued Payroll and Liabilities	83,950	82,974
Total liabilities	$ 725,011	$ 757,288
Contingencies (Note 10)		
Net position (Note 6)		
Unexpended appropriations	$ 320,093	$ 339,669
Cumulative results of operations - dedicated collections (Note 11)	1,155,458	1,145,750
Cumulative results of operations - all other funds (combined totals)	7,269	(15,212)
Total cumulative results of operations	1,162,727	1,130,538
Total net position	$ 1,482,820	$ 1,470,207
Total liabilities and net position	$ 2,207,831	$ 2,227,495

The accompanying notes are an integral part of the consolidated financial statements.

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
CONSOLIDATED STATEMENTS OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND SEPTEMBER 30, 2014
(amounts in thousands)

	2015	2014
Program costs:		
Gross costs	$ 7,166,740	$ 7,306,366
Less: Earned revenue	(5,829,995)	(5,969,436)
Net cost of operations (Notes 7 and 12)	$ 1,336,745	$ 1,336,930

The accompanying notes are an integral part of the consolidated financial statements.

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPEMBER 30, 2015 AND SEPTEMBER 30, 2014
(amounts in thousands)

	2015 (Note 1B)			2014 (Note 1B)		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning balance	$ 1,145,750	($15,212)	$ 1,130,538	$ 1,133,617	($22,219)	$ 1,111,398
Budgetary Financing Sources						
Appropriations transfers used	-	1,313,777	1,313,777	-	1,274,208	1,274,208
Non-exchange revenue	-	19,303	19,303	-	22,210	22,210
Other Financing Sources (Uses)						
Transfers in, building (Note 4)	-	-	-	17,952	-	17,952
Imputed financing (Note 8)	-	35,854	35,854	-	41,700	41,700
Transfers in (out) without reimbursement	3,343	(3,343)	-	3,415	(3,415)	-
Total Financing Sources	3,343	1,365,591	1,368,934	21,367	1,334,703	1,356,070
Net Cost of Operations	(6,365)	1,343,110	1,336,745	9,234	1,327,696	1,336,930
Net Change	9,708	22,481	32,189	12,133	7,007	19,140
Cumulative Results of Operations (Notes 6 and 11)	$ 1,155,458	$ 7,269	$ 1,162,727	$ 1,145,750	$ (15,212)	$ 1,130,538
Unexpended Appropriations:						
Beginning Balance	$ -	$ 339,669	$ 339,669	$ -	$ 247,993	$ 247,993
Budgetary Financing Sources:						
Appropriation transfer in/out	-	1,304,731	1,304,731	-	1,365,897	1,365,897
Other adjustments (recissions)	-	(10,530)	(10,530)	-	(13)	(13)
Appropriations transfers used	-	(1,313,777)	(1,313,777)	-	(1,274,208)	(1,274,208)
Total Budgetary Financing Sources:	-	(19,576)	(19,576)	-	91,676	91,676
Total Unexpended Appropriations (Note 6)	-	320,093	320,093	-	339,669	339,669
Total Net Position (Note 6)	$ 1,155,458	$ 327,362	$ 1,482,820	$ 1,145,750	$ 324,457	$ 1,470,207

The accompanying notes are an integral part of the consolidated financial statements

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMBINED STATEMENTS OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 and SEPTEMBER 30, 2014
(amounts in thousands)

	2015 (Note 1B)	2014 (Note 1B)
Budgetary Resources:		
Unobligated balance brought forward, as adjusted	$ 288,945	$ 181,737
Recoveries of prior year obligations	177	280
Other changes in unobligated balance	(10,707)	(293)
Unobligated balance from prior year budget authority, net	278,415	181,724
Appropriations (discretionary and mandatory) (Note 9)	1,304,731	1,365,897
Contract authority (discretionary and mandatory) (Note 9)	5,568,088	5,679,820
Spending authority from offsetting collections (discretionary and mandatory)	290,174	305,232
Total budgetary resources	$ 7,441,408	$ 7,532,673
Status of Budgetary Resources:		
Obligations incurred (Note 12)	$ 7,147,365	$ 7,243,728
Unobligated balances, end of year:		
Apportioned	293,608	278,296
Unapportioned	435	10,649
Total unobligated balance, end of year	294,043	288,945
Total budgetary resources	$ 7,441,408	$ 7,532,673
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward	$ 925,184	$ 925,011
Obligations incurred (Note 12)	7,147,365	7,243,728
Outlays (gross)	(7,151,195)	(7,243,275)
Recoveries of prior year unpaid obligations	(177)	(280)
Unpaid obligations, end of year (gross)	921,177	$ 925,184
Uncollected payments:		
Uncollected customer payments, Federal sources, brought forward, Oct 1	(1,869)	(2,229)
Change in uncollected customer payments from Federal sources	511	360
Uncollected payments, federal source, end of year	(1,358)	$ (1,869)
Memorandum entries:		
Obligated balances, start of year (net)	$ 923,315	$ 922,782
Obligated balance, end of year (net)	$ 919,819	$ 923,315
Budgetary Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 7,162,992	$ 7,350,948
Actual offsetting collections (discretionary and mandatory)	(5,826,445)	(6,006,815)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	511	360
Budget authority, net (discretionary and mandatory)	$ 1,337,058	$ 1,344,493
Outlays, gross (discretionary and mandatory)	$ 7,151,195	$ 7,243,275
Actual offsetting collections (discretionary and mandatory)	(5,826,445)	(6,006,815)
Agency outlays, net (discretionary and mandatory)	$ 1,324,750	$ 1,236,460

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

DeCA provides grocery, meat, and produce items to members of the U. S. Armed Forces, their dependents, retirees, reservists, Guard members, and other authorized patrons, including other governmental entities. DeCA is a DoD agency under the control of the Under Secretary of Defense for Personnel and Readiness. DeCA was created in 1991 after the House Armed Services Committee-appointed Jones Commission recommended that a single agency be responsible for operating the military commissary system to increase effectiveness at a lower cost. The Consolidated Statement of Net Cost presents the cost of DeCA's mission to deliver a premier commissary benefit to the armed services community that encourages an exciting shopping experience; satisfies customer demand for quality grocery and household products; and delivers exceptional savings while enhancing quality of life; fostering recruitment, retention and readiness; and supporting war fighters' peace of mind, knowing their families have secure and affordable access to American products.

DeCA, with its headquarters located at Fort Lee near Petersburg, Virginia, has five area offices in the East, Central, West, Europe, and Pacific. DeCA operations are financed primarily by a WCF and Surcharge Collections Trust Fund.

DeCA's WCF is considered part of the DoD's WCF, which includes the financial activities of several Defense Agencies. Within DeCA's WCF, there are two activity groups, Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for fund control purposes. Commissary Resale Stocks finance the purchase of grocery, meat, and produce items for resale to authorized patrons. The primary revenue source for this activity group is the sale of inventory to commissary patrons. Commissary Operations finance the operating costs of retail stores, agency and region headquarters, field operating activities, and support services. The primary revenue source for this activity group is a direct appropriation from the Defense WCF, which in turn transfers the funds to the DeCA WCF. Commissary Operations also receives additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. DeCA receives an annual operating budget from DoD that establishes limitations for annual cost authority and annual capital expenditures for the two business areas.

The Surcharge Collections Trust Fund is part of DeCA's general funds (GF). The GF also has a fund used in support of Hurricane Katrina relief efforts and two that receive certain amounts of military construction appropriated funds. In FY 2009, DeCA was authorized Military Construction, Defense-Wide Recovery Act Funds of $110 in accordance with the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) for Energy Conservation Investment Program projects at the Air Force Academy

Commissary. These funds were available for five years, expired at the end of FY 2013, and will be returned to Treasury in FY 2018.

DeCA's Surcharge Collections Trust Fund is funded primarily by a five percent surcharge applied to each sale. This fund, established by law as the repository for the surcharge collected on the cost of commissary goods paid for by authorized patrons, primarily finances DeCA's store-level information management equipment and support, and construction programs. As the use of resources associated with the Surcharge Collections Trust Fund is limited by public law, this fund has been identified as a fund from dedicated collections. These funds are financed by specifically identified revenues and other financing sources that are required by statute to be used for designated purposes and must be accounted for separately from the DeCA's general revenues.

Note 11 provides detailed information concerning Dedicated Collections.

B. <u>Basis of Presentation and Accounting</u>

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources. The consolidated financial statements have been prepared from the books and records of DeCA in accordance with US generally accepted accounting principles and DoD accounting policies, which are summarized in this note.

Transactions are recorded on both an accrual accounting basis and budgetary accounting 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 facilitates compliance with legal requirements on the use of Federal funds. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations.

C. <u>Fund Balance with Treasury (FBWT)</u>

The FBWT is the aggregate amount of funds in DeCA's accounts with Treasury. FBWT primarily represents appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases.

Note 2 provides specific, detailed information concerning FBWT.

D. <u>Cash</u>

Cash primarily consists of receipts from sales occurring during the last several days of the reporting period that have been deposited into financial institutions, but are not yet credited to DeCA's FBWT.

E. Accounts Receivable

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies. No allowance for doubtful accounts is deemed necessary for Federal accounts receivable.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Nonfederal accounts receivables are reported net of an allowance of $1,260 and $1,403 as of September 30, 2015 and September 30, 2014, respectively.

F. Inventory, net

Inventory consists primarily of grocery, meat and produce items and is held for sale to authorized commissary patrons. DeCA purchases inventory at the lowest possible cost, and such inventory is recorded in its accounting records at latest acquisition cost. DeCA then sells that inventory at cost plus a one percent mark-up on selected grocery items to cover the cost of inventory loss incurred in normal operations plus a five percent surcharge to finance equipment and construction projects.

A complete physical count of inventory on-hand is performed annually at each commissary and Central Distribution Center (CDC) on various dates throughout the year, at which time the accounting records are adjusted to reflect the actual value of inventory on-hand at that point in time. In order to properly reflect inventory values at each month end, an estimate of loss from the date of the last physical count to the month-end is made based on historical physical count to book adjustment as a percent of sales trends. The unrealized holding gain/loss represents an aggregate of all inventory allowance accounts that revalue the original historical cost of the inventory based on DeCA's use of the Latest Acquisition Cost (LAC) method. At September 30, 2015, inventory, net valued at historical cost is reported as inventory on hand net of estimate for losses incurred and unrealized holding gain/loss.

Note 3 provides specific, detailed information concerning inventory

G. General Property, Plant, and Equipment (PP&E), Net

General PP&E consists of buildings, structures and facilities (BSF), software, equipment and construction-in-progress. PP&E is stated at acquisition cost, less accumulated depreciation/amortization. DoD establishes capitalization and depreciation policies for PP&E.

PP&E acquisitions are capitalized if they have an estimated useful life of two or more years, are not intended for sale in the ordinary course of operations, are acquired or constructed with the intention of being used or being available for use by the entity, and meet the capitalization threshold of $250. This capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 for equipment and $20 for real property).

Depreciation is recognized on all PP&E, except construction-in-progress, on the straight-line basis over the estimated useful life of the asset. The useful lives are generally forty years for BSF and five to ten years for software and equipment. The actual commencement of depreciation is based on the midyear convention method for buildings. Under the midyear convention method, six months of depreciation is computed and expensed in the first and last year of an assets useful life regardless of the actual month an asset was placed in or removed from service. The month available for service method is used for all other capital assets.

When DeCA purchases capital assets, the host country, or if in the United States, the military service responsible for the base, retains title to the land and capital improvements. In the event commissaries/CDCs, etc. are closed, losses are recorded for the value of any nonretrievable capital assets.

Note 4 provides detailed information concerning general PP&E.

H. Accrued Payroll and Liabilities

Accrued payroll and liabilities consist of payments DeCA owes to the Department of Labor (DOL) for workers' compensation paid under Federal Employees Compensation Act (FECA), accrued payroll and benefits (including employer contributions and payroll taxes), foreign national separation pay, and accrued leave.

Workers' Compensation. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL is responsible for administering the program and making payments for claims from eligible individuals. Subsequently, DOL bills the respective Federal agencies for those claims. The actuarially determined liability related to workers' compensation is described in Note 1.I.

Accrued Payroll and Benefits. Accrued payroll and benefits includes the portion of employee compensation earned, but not paid, at the end of the reporting period along with DeCA's share of associated taxes, benefits, and retirement plan contributions.

Foreign National Separation Pay. DeCA operates in numerous foreign countries. These countries establish tariff agreements that outline certain employment terms and conditions related to its citizens. Under these tariff agreements, citizens for certain countries are entitled to special pay in the event their employment is terminated.

Accrued Leave. Federal employees' annual leave is accrued as it is earned. The accrual is reduced annually for actual leave taken and increased for leave earned. Each year, the accrued annual leave balance is also adjusted to reflect the latest pay rates. To the extent current or prior year appropriations are not available to fund accrued leave earned, but not taken, funding will be obtained from future financing sources.

Note 5 provides detailed information about other liabilities.

I. Actuarial Liability

In addition to the liabilities discussed above, DeCA records an actuarial liability for its workers' compensation benefits. This liability, which is developed by DOL and provided to DoD after the end of each fiscal year, includes the expected future costs associated with death, disability, medical, and miscellaneous items for approved compensation cases. DOL determines the liability using a method that employs historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. The assumed interest rate for 10-year U.S. Treasury notes and bonds was 3.134 percent and 3.455 percent at September 30, 2015 and September 30, 2014, respectively. DoD uses a three-year moving average to distribute the actuarial liability to the various DoD agencies based on actual costs incurred by the respective DoD components.

J. Imputed Financing and Costs

DeCA recognizes imputed financing related to Federal retirement plans, health benefits, and life insurance.

Retirement Plans. There are two primary retirement systems for Federal employees. Employees hired before January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security.

Employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DeCA automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay.

DeCA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM. DeCA recognizes an imputed financing source for the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the OPM.

Health Benefits and Life Insurance. The majority of DeCA employees are authorized to participate in the Federal Employees' Health Benefit (FEHB) program and the Federal Employees Group Life Insurance (FEGLI) program, which are administered by OPM. DeCA recognizes an imputed financing source and a program expense for these benefits.

Note 8 provides detailed information about other imputed financing.

K. Environmental Liabilities

DeCA's environmental liabilities reflect the potential liability associated with the clean-up and removal of environmentally hazardous materials, primarily asbestos and lead- based paints in DeCA's facilities. DeCA estimates its environmental liability based on the number of facilities constructed before 1988 that have not been remediated. The estimate is periodically adjusted upon completion of scheduled renovation projects. Actual costs may differ from the estimate due to possible changes resulting from inflation, deflation, technology, and/or applicable laws and regulations.

The sources (applicable laws and regulations) of applicable asbestos-related cleanup requirements are as follows:

(a) National Emission Standards for Hazardous Air Pollutants (NESHAP) under the Clean Air Act (40 CFR Part 61, Subpart M)

(b) Occupational Health and Safety Administrative Regulation (29 CFR 1910.1001)

(c) Toxic Substance Control Act (TSCA) Subchapter II: Asbestos Hazard Emergency Response (15 U.S.C. § 2641-2656)

The sources (applicable laws and regulations) of applicable lead based paint-related cleanup requirements are as follows:

(a) TSCA Section 402(c)(3)

(b) Resource Conservation and Recovery Act (RCRA) (40 CFR 261-262)

(c) Occupational Health and Safety Administrative Regulations (29 CFR 1910.1025, 29 CFR 1929.62 and 29 CFR 1926.353-354)

In accordance with FASAB Tech Bulletin 2006-1 Recognition and Measurement of Asbestos-Related Cleanup Cost; clean-up costs are based on potentially affected areas and the probability of Asbestos Containing Material (ACM) being present. Individually, per square foot cost is calculated for ACM (friable) at $.67 and ACM (non-friable) at $.27. All clean-up is done in coordination with regulatory agencies, other responsible parties, and current property owners. In addition, DeCA recognizes the estimated environmental clean-up cost for Lead Base Paint at an individual per square foot cost of $4.09. The environmental liabilities for the DeCA are based on accounting estimates which require certain judgments and assumptions that are reasonably based upon information available at the time the estimates are calculated.

L. <u>Net Position</u>

Net position is the residual difference between assets and liabilities and comprises unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unexpended appropriations are reduced for appropriations used and adjusted for other changes in budgetary resources, such as transfers and rescissions.

Cumulative results of operations represent the difference between revenues over expenses and transfers to Treasury in the WCF and GF since inception.

Note 6 provides detailed information on Net Position.

M. <u>Nonexchange Revenue</u>

DeCA recognizes nonexchange revenue for the labor received at no cost for local nationals working in the country of Japan. The Government of Japan pays the salaries for local national employees up to a specified annual ceiling amount. Payroll over this ceiling is charged to DeCA.

N. <u>Use of Estimates</u>

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates, and the difference will be adjusted for and included in the financial statements in the year such differences are determined.

(Except as noted, all dollar amounts are in thousands)

O. **Contingencies and Commitments**

DeCA is a party in various administrative proceedings, legal actions, and potential claims. In the opinion of DeCA management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of DeCA. Contingent liabilities are recognized when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

NOTE 2 - FUND BALANCE WITH TREASURY

FBWT consists of three types of funds – appropriated funds, revolving funds, and trust funds. The appropriated funds include commissary operations, military construction, military construction recovery act, and the Hurricane Katrina funds; the revolving fund relates to DeCA's commissary resale stocks fund, and the trust fund relates to the Surcharge Collections Trust Fund.

The following table shows the balance for each type of fund as of September 30, 2015 and September 30, 2014:

Fund balances:	**2015**	**2014**
Appropriated funds		
General Fund	$ 1,046	$ 11,576
Working Capital Fund	488,109	495,065
Total	$ 489,155	$ 506,641
Revolving funds		
General Fund	$ -	$ -
Working Capital Fund	(74,605)	(27,049)
Total	$ (74,605)	$ (27,049)
Trust funds	424,858	390,364
Total	$ 839,408	$ 869,956

(Except as noted, all dollar amounts are in thousands)

The following table shows the status of the fund balances as of September 30, 2015 and September 30, 2014.

	2015			
Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 220,473	$ -	$ 73,135	$ 293,608
Unobligated balance unavailable	435	-	-	435
Obligated balance not yet disbursed, net of contract authority	268,247	(74,605)	351,723	545,365
Totals	$ 489,155	$ (74,605)	$ 424,858	$ 839,408

	2014			
Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 214,110	$ -	$ 64,186	$ 278,296
Unobligated balance unavailable	10,649	-	-	10,649
Obligated balance not yet disbursed, net of contract authority	281,882	(27,049)	326,178	581,011
Totals	$ 506,641	$ (27,049)	$ 390,364	$ 869,956

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

Obligated balance not yet disbursed generally represents funds that have been obligated for goods and services not received, and those received but not paid.

DeCA is a revolving fund activity and because the total activity group remains positive, the negative balance remains within statutory compliance.

(Except as noted, all dollar amounts are in thousands)

NOTE 3 - INVENTORY, NET

The following table summarizes net inventory for September 30, 2015 and September 30, 2014:

	2015
Inventory LAC without estimate for losses incurred	$ 411,953
Estimate for losses incurred	(6,330)
Inventory on hand at LAC	405,623
Unrealized holding gain	(3,206)
Inventory, Net	$ 402,417

	2014
Inventory LAC without estimate for losses incurred	$ 399,627
Estimate for losses incurred	(11,012)
Inventory on hand at LAC	388,615
Unrealized holding losses	465
Inventory, Net	$ 389,080

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General property, plant and equipment (PP&E) at September 30, 2015 and September 30, 2014 is summarized as follows:

2015			
PP&E category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Buildings, structures, and facilities	$ 2,230,187	$ (1,533,940)	$ 696,247
Software	36,042	(28,434)	7,608
Equipment and other assets	201,138	(123,753)	77,385
Construction-in-progress	53,266	-	53,266
Totals	$ 2,520,633	$ (1,686,127)	$ 834,506

2014			
PP&E category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Buildings, structures, and facilities	$ 2,205,430	$ (1,506,400)	$ 699,030
Software	39,777	(30,465)	9,312
Equipment and other assets	196,742	(109,337)	87,405
Construction-in-progress	48,583	-	48,583
Totals	$ 2,490,532	$ (1,646,202)	$ 844,330

(Except as noted, all dollar amounts are in thousands)

During FY 2014, DeCA transferred in and transferred out capital assets resulting in a net value of $18 million which is reflected in the Consolidated Statement of Changes in Net Position. The majority of these assets are buildings and equipment financed by other DoD agencies that were transferred to DeCA as a result of the DoD's Financial Management Regulation accounting policy revision memorandum issued in March 2013. This memorandum requires assets to be reported on the financial statement of the entity which controls access to the economic benefit.

NOTE 5 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2015 and September 30, 2014:

	2015		
Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts payable	$47,878	$ -	$ 47,878
Other liabilities	3,441	33,528	36,969
Subtotal	51,319	33,528	84,847
With the public:			
Accounts payable	382,142	-	382,142
Federal Employees Compensation Act actuarial liability	-	145,087	145,087
Environmental liabilities	-	28,985	28,985
Other liabilities	24,829	59,121	83,950
Subtotal	406,971	233,193	640,164
Totals	$ 458,290	$ 266,721	$ 725,011

	2014		
Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts payable	$ 48,054	$ -	$ 48,054
Other liabilities	2,807	34,487	37,294
Subtotal	50,861	34,487	85,348
With the public:			
Accounts payable	401,177	-	401,177
Federal Employees Compensation Act actuarial liability	-	158,094	158,094
Environmental liabilities	-	29,695	29,695
Other liabilities	22,474	60,500	82,974
Subtotal	423,651	248,289	671,940
Totals	$ 474,512	$ 282,776	$ 757,288

(Except as noted, all dollar amounts are in thousands)

The following table summarizes current and noncurrent other liabilities as of September 30, 2015 and September 30, 2014:

	2015		
Other liabilities	**Current Liabilities**	**Non-Current Liabilities**	**Total**
Intragovernmental:			
Workers compensation	$ 14,943	$ 18,585	$ 33,528
Employer contributions and payroll taxes payable	3,441	-	3,441
Subtotal	18,384	18,585	36,969
With the public:			
Accrued funded payroll and benefits	24,829	-	24,829
Foreign national separation pay	14,740	-	14,740
Accrued leave	44,381	-	44,381
Subtotal	83,950	-	83,950
Totals	$ 102,334	$ 18,585	$ 120,919

	2014		
Other liabilities	**Current Liabilities**	**Non-Current Liabilities**	**Total**
Intragovernmental:			
Workers compensation	$ 15,439	$ 19,048	$ 34,487
Employer contributions and payroll taxes payable	2,807	-	2,807
Subtotal	18,246	19,048	37,294
With the public:			
Accrued funded payroll and benefits	22,474	-	22,474
Foreign national separation pay	16,535	-	16,535
Accrued leave	43,965	-	43,965
Subtotal	82,974	-	82,974
Totals	$ 101,220	$ 19,048	$ 120,268

(Except as noted, all dollar amounts are in thousands)

NOTE 6 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2015 and September 30, 2014:

	2015		
Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 1,046	$ 319,047	$ 320,093
Cumulative results of operations - dedicated collections	1,155,458	-	1,155,458
Cumulative results of operations - other funds	-	7,269	7,269
Total cumulative results of operations	1,155,458	7,269	1,162,727
Totals	$ 1,156,504	$ 326,316	$ 1,482,820

	2014		
Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 11,576	$ 328,093	$ 339,669
Cumulative results of operations - dedicated collections	1,145,750	-	1,145,750
Cumulative results of operations - other funds	-	(15,212)	(15,212)
Total cumulative results of operations	1,145,750	(15,212)	1,130,538
Totals	$ 1,157,326	$ 312,881	$ 1,470,207

NOTE 7 - INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost includes intragovernmental and public cost and exchange revenue as summarized in the following table as of September 30, 2015 and September 30, 2014:

	2015	**2014**
Intragovernmental costs	$ 447,049	$ 454,343
Public costs	6,719,691	6,852,023
Intragovernmental earned revenue	(3,759)	(5,673)
Public earned revenue	(5,826,236)	(5,963,763)
Net cost of operations	$ 1,336,745	$ 1,336,930

(Except as noted, all dollar amounts are in thousands)

Intragovernmental transactions and balances result from exchange transactions made between DeCA and another Federal entity, while those classified as "with the public" result from the exchange transactions between DeCA and nonfederal entities. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

NOTE 8 - IMPUTED FINANCING

The imputed financing and cost for employee benefits as of September 30, 2015 and September 30, 2014 is summarized below:

Benefit Category	2015	2014
CSRS/FERS	$ 8,936	$ 16,780
FEHB	26,818	24,823
FEGLI	100	97
Total	$ 35,854	$ 41,700

NOTE 9 - COMBINED STATEMENTS OF BUDGETARY RESOURCES

The SBR is a combined statement and, as such, intra-entity transactions have not been eliminated. The combined SBR has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States of America). However, the President's Budget is prepared from the SF 133, Report on Budget Execution. Due to timing and the need for accelerated reporting at fiscal year end, the SF 133 is prepared using estimates, while the SBR has been adjusted for actual results. As such, the FY 2015 SBR may differ from the amounts in the President's Budget by the differences between estimates used for the SF 133 and the actual results reporting in the SBR.

The FY 2015 actual amounts as shown on the FY 2017 President's Budget were not available at the time the consolidated financial statements were prepared. The FY 2017 President's Budget is expected to be available in February 2016. Both documents can be located at the OMB website (http://www.whitehouse.gov/omb). The actual amounts reported in the FY 2014 SBR are in agreement with the actual amounts reported for the DeCA WCF in the President's FY 2015 budget request.

Total budget authority in FY 2015 and 2014 included appropriation transfers in the amounts of

(Except as noted, all dollar amounts are in thousands)

$1,304,731 and $1,365,897 respectively, and contract authority in the amounts of $5,568,088 and $5,679,820 respectively. The appropriation transfer is offset by the contract authority liquidation and is available indefinitely. Contract authority primarily provides DeCA the ability to purchase grocery, meat, and produce items for resale to authorized commissary patrons. Spending authority from offsetting collections results primarily from the sale of grocery, meat, and produce items.

Undelivered orders as of September 30, 2015 and September 30, 2014 were $463,824 and $451,631 respectively.

The obligated balances, net – beginning and end of period are comprised of the following components:

Obligated balance, net - beginning of period	**2015**	**2014**
Unpaid obligations - brought forward	$ 925,184	$ 925,011
Uncollected customer payments from Federal sources brought forward	(1,869)	(2,229)
Total obligated balance, net - beginning of period	$ 923,315	$ 922,782
Obligated balance, net - end of period		
Unpaid obligations	$ 921,177	$ 925,184
Uncollected customer payments from Federal sources	(1,358)	(1,869)
Total obligated balance, net - end of period	$ 919,819	$ 923,315

DeCA has no direct obligations and no reimbursable obligations in Category A which represents apportioned by time period.

DeCA has $1,305.9 million direct obligations apportioned under Category B. Reimbursable obligations of $5,841.5 million are apportioned under Category B, which represents amounts apportioned by activity, projects or object.

The SBR includes intra-entity transactions which are not eliminated because the statements are presented as combined.

There are no legal arrangements affecting the use of unobligated balances.

(Except as noted, all dollar amounts are in thousands)

NOTE 10 - CONTINGENCIES

DeCA is a party in various administrative proceeding and legal actions related to claims for environmental damage, equal opportunity matters and contractual bid protests. DeCA has not accrued or disclosed any amounts for contingent liabilities as potential losses have not been determined to be probable or reasonably possible.

NOTE 11 – DEDICATED COLLECTIONS

The following table presents condensed data relating to DeCA's Dedicated Collections, the Surcharge Collections Trust Fund, as of and for the years ended September 30, 2015 and September 30, 2014:

Balance Sheet	**2015**	**2014**
Assets:		
Fund balance with Treasury (Note 2)	$ 424,858	$ 390,364
Cash and accounts receivable	4,641	4,185
Property, plant, and equipment	780,240	801,254
Total assets	$ 1,209,739	$ 1,195,803
Liabilities:		
Accounts payable	$ 25,296	$ 20,358
Environmental liabilities	28,985	29,695
Total liabilities	54,281	50,053
Cumulative results of operations	1,155,458	1,145,750
Total liabilities and net position	$ 1,209,739	$ 1,195,803
Statement of Net Cost		
Program costs	$ 270,474	$ 293,007
Earned revenue	(276,839)	(283,773)
Net income (loss) from operations	$ (6,365)	$ 9,234

(Except as noted, all dollar amounts are in thousands)

NOTE 12 - RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The following table presents DeCA's reconciliation of net cost of operations to budgetary resources as of and for the years ended September 30, 2015 and September 30, 2014:

Resources used to finance activities	**2015**	**2014**
Budgetary resources obligated:		
Obligations incurred	$ 7,147,365	$ 7,243,728
Less: Spending authority from offsetting collections and recoveries	(5,826,112)	(6,006,735)
Obligations, net of offsetting collections and recoveries	1,321,253	1,236,993
Other resources:		
Transfers in (out)	-	17,952
Imputed financing from costs absorbed by others (Note 8)	35,854	41,700
Other - Gain (losses) in capital assets	-	-
Net other resources used to finance activities	35,854	59,652
Total resources used to finance activities	1,357,107	1,296,645
Resources used to finance items not part of net costs of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered orders	(12,193)	19,479
Unfilled customer orders	(472)	(300)
Resources that fund expenses recognized in prior periods	(16,471)	(14,584)
Resources that finance the acquisition of assets	(5,600,708)	(5,736,488)
Other resources that do not affect net cost of operations	-	(17,952)
Total resources used to finance items not part of the net cost of operations	(5,629,844)	(5,749,845)
Total resources used to finance the net cost of operations	(4,272,737)	(4,453,200)
Components of the net cost of operations that will not require or generate resources in the current year		
Components requiring or generating resources in future periods	14,268	69,371
Components not requiring or generating resources in future periods:		
Cost of goods sold	5,530,038	5,662,375
Depreciation and amortization	65,176	69,257
Revaluation of assets/liabilities	(20,132)	(33,413)
Non-exchange revenue and other	20,132	22,540
Total components of net cost of operations that will not require or generate resources in the current period	5,609,482	5,790,130
Net cost of operations	$ 1,336,745	$ 1,336,930

This information is an integral part of the financial statements.

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2015
(amounts in thousands)

	Defense Working Capital Funds		General Funds				
	Operations	**Resale**	**Surcharge**	**Military Construction**	**Military Construction Recovery Act**	**Katrina - Relief**	**Combined**
Budgetary Resources:							
Unobligated balance brought forward, as adjusted	$ 213,183	$ -	$ 64,186	$ 1,046	$ -	$ 10,530	$ 288,945
Recoveries of prior year obligations	127	50	-	-	-	-	177
Other changes in unobligated balance	(127)	(50)	-	-	-	(10,530)	(10,707)
Unobligated balance from prior year budget authority, net	213,183	-	64,186	1,046	-	-	278,415
Appropriations (discretionary and mandatory) (Note 9)	1,304,731	-	-	-	-	-	1,304,731
Contract authority (discretionary and mandatory) (Note 9)	21,929	5,546,159	-	-	-	-	5,568,088
Spending authority from offsetting collections (discretionary and mandatory)	13,461	-	276,713	-	-		290,174
Total budgetary resources	$ 1,553,304	$ 5,546,159	$ 340,899	$ 1,046	$ -	$ -	$ 7,441,408
Status of Budgetary Resources:							
Obligations incurred (Note 12)	$ 1,333,442	$ 5,546,159	$ 267,764	$ -	$ -	$ -	$ 7,147,365
Unobligated balances, end of year:							
Apportioned	219,862	-	73,135	611	-	-	293,608
Unapportioned	-	-	-	435	-	-	435
Total unobligated balance, end of year	219,862	-	73,135	1,046	-	-	294,043
Total budgetary resources	$ 1,553,304	$ 5,546,159	$ 340,899	$ 1,046	$ -	$ -	$ 7,441,408
Change in Obligated Balance:							
Unpaid obligations:							
Unpaid obligations, brought forward	$ 309,979	$ 310,220	$ 304,985	$ -	$ -	$ -	$ 925,184
Obligations incurred (Note 12)	1,333,442	5,546,159	267,764	-	-	-	7,147,365
Outlays (gross)	(1,333,976)	(5,571,160)	(246,059)	-	-	-	(7,151,195)
Recoveries of prior year unpaid obligations	(127)	(50)	-	-	-	-	(177)
Unpaid obligations, end of year (gross)	309,318	285,169	326,690	-	-	-	921,177
Uncollected payments:							
Uncollected customer payments from Federal sources, brought forward	(1,851)	(18)	-	-	-	-	(1,869)
Change in uncollected customer payments from Federal sources	508	3	-	-	-	-	511
Uncollected payments, federal source, end of year	(1,343)	(15)	-	-	-	-	(1,358)
Memorandum entries:							
Obligated balances, start of year (net)	$ 308,128	$ 310,202	$ 304,985	$ -	$ -	$ -	$ 923,315
Obligated balance, end of year (net)	$ 307,975	$ 285,154	$ 326,690	$ -	$ -	$ -	$ 919,819
Budgetary Authority and Outlays, Net:							
Budget authority, gross (discretionary and mandatory)	$ 1,340,121	$ 5,546,158	$ 276,713	$ -	$ -	$ -	$ 7,162,992
Actual offsetting collections (discretionary and mandatory)	(22,289)	(5,523,603)	(280,553)	-	-	-	(5,826,445)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	508	3	-	-	-	-	511
Budget authority, net (discretionary and mandatory)	$ 1,318,340	$ 22,558	$ (3,840)	$ -	$ -	$ -	$ 1,337,058
Outlays, gross (discretionary and mandatory)	$ 1,333,976	$ 5,571,160	$ 246,059	$ -	$ -	$ -	$ 7,151,195
Actual offsetting collections (discretionary and mandatory)	(22,289)	(5,523,603)	(280,553)	-	-	-	(5,826,445)
Agency outlays, net (discretionary and mandatory)	$ 1,311,687	$ 47,557	$ (34,494)	$ -	$ -	$ -	$ 1,324,750

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2014
(amounts in thousands)

	Defense Working Capital Funds		General Funds				
	Operations	**Resale**	**Surcharge**	**Military Construction**	**Military Construction Recovery Act**	**Katrina - Relief**	**Combined**
Budgetary Resources:							
Unobligated balance brought forward, as adjusted	$ 128,272	$ -	$ 41,868	$ 1,067	$ -	$ 10,530	$ 181,737
Recoveries of prior year obligations	-	280	-	-	-	-	280
Other changes in unobligated balance	-	(280)	-	(13)	-	-	(293)
Unobligated balance from prior year budget authorty, net	128,272	-	41,868	1,054	-	10,530	181,724
Appropriations (discretionary and mandatory) (Note 9)	1,365,897	-	-	-	-	-	1,365,897
Contract authority (discretionary and mandatory) (Note 9)	1,453	5,678,367	-	-	-	-	5,679,820
Spending authority from offsetting collections (discretionary and mandatory)	17,972	-	287,260	-	-		305,232
Total budgetary resources	$ 1,513,594	$ 5,678,367	$ 329,128	$ 1,054	$ -	$ 10,530	$ 7,532,673
Status of Budgetary Resources:							
Obligations incurred (Note 12)	$ 1,300,411	$ 5,678,367	$ 264,942	$ 8	$ -	$ -	$ 7,243,728
Unobligated balances, end of year:							
Apportioned	213,183		64,186	927	-	-	278,296
Unapportioned	-	-	-	119	-	10,530	10,649
Total unobligated balance, end of year	213,183	-	64,186	1,046	-	10,530	288,945
Total budgetary resources	$ 1,513,594	$ 5,678,367	$ 329,128	$ 1,054	$ -	$ 10,530	$ 7,532,673
Change in Obligated Balance:							
Unpaid obligations:							
Unpaid obligations, brought forward	$ 290,806	$ 309,412	$ 324,638	$ 155	$ -	$ -	$ 925,011
Obligations incurred (Note 12)	1,300,411	5,678,367	264,942	8	-	-	7,243,728
Outlays (gross)	(1,281,238)	(5,677,279)	(284,595)	(163)	-	-	(7,243,275)
Recoveries of prior year unpaid obligations	-	(280)	-	-	-	-	(280)
Unpaid obligations, end of year (gross)	309,979	310,220	304,985	-	-	-	925,184
Uncollected payments:							
Uncollected customer payments from Federal sources, brought forward	(2,137)	(92)	-	-	-	-	(2,229)
Change in uncollected customer payments from Federal sources	286	74	-	-	-	-	360
Uncollected payments, federal source, end of year	(1,851)	(18)	-	-	-	-	(1,869)
Memorandum entries:							
Obligated balances, start of year (net)	$ 288,669	$ 309,320	$ 324,638	$ 155	$ -	$ -	$ 922,782
Obligated balance, end of year (net)	$ 308,128	$ 310,202	$ 304,985	$ -	$ -	$ -	$ 923,315
Budgetary Authority and Outlays, Net:							
Budget authority, gross (discretionary and mandatory)	$ 1,385,321	$ 5,678,367	$ 287,260	$ -	$ -	$ -	$ 7,350,948
Actual offsetting collections (discretionary and mandatory)	(26,339)	(5,691,852)	(288,624)	-	-	-	(6,006,815)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	286	74	-	-	-	-	360
Budget authority, net (discretionary and mandatory)	$ 1,359,268	$ (13,411)	$ (1,364)	$ -	$ -	$ -	$ 1,344,493
Outlays, gross (discretionary and mandatory)	$ 1,281,238	$ 5,677,279	$ 284,595	$ 163	$ -	$ -	$ 7,243,275
Actual offsetting collections (discretionary and mandatory)	(26,339)	(5,691,852)	(288,624)	-	-	-	(6,006,815)
Agency outlays, net (discretionary and mandatory)	$ 1,254,899	$ (14,573)	$ (4,029)	$ 163	$ -	$ -	$ 1,236,460

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
DEFERRED MAINTENACE AND REPAIRS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

(amounts in thousands)

DeCA's PP&E is under various forms of maintenance contract. DeCA has an equipment replacement plan that schedules replacement of equipment based on its useful life. The flexibility in the Surcharge program allows DeCA to address any out of cycle maintenance or repair. DeCA engineers use a variety of tools to constantly access facility conditions and plan for replacement or repair of any component in a facility that may be approaching the end of its useful life. Due to the nature of DeCA's maintenance cycles and funding, DeCA does not have deferred maintenance.

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INDEPENDENT AUDITORS' REPORT

Defense Commissary Agency
Director
Chair, Financial Audit Advisory Committee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements (financial statements) of the Defense Commissary Agency (DeCA), a component of the United States Department of Defense (DoD), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
DeCA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); and this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Defense Commissary Agency as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that DeCA's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) (Combining Schedule of Budgetary Resources and Deferred Maintenance and Repairs) in DeCA's Annual Financial Report, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information as noted in the table of contents of DeCA's Fiscal Year 2015 Financial Report other than Part I - *MD&A*, Part III - *Financial Section, except for the Chief Financial Officer's Message,* is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DeCA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DeCA's internal control. Accordingly, we do not express an opinion on the effectiveness of DeCA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the DeCA's financial statements will not be prevented, or detected and corrected on a timely basis. A s*ignificant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify one deficiency in internal control, described in **Exhibit A,** which we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DeCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Such tests included those relating to the Federal Financial Management Improvement Act (FFMIA) Section 803(a) requirements in order to determine whether the financial management systems used by DeCA substantially comply with the following: (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the United States Standard General Ledger (USGL) at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests, exclusive of those performed relating to DeCA's compliance with FFMIA as discussed below, disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards* or OMB Bulletin 15-02.

With respect to DeCA's compliance with FFMIA Section 803(a) requirements, we determined, as described in **Exhibit B**, that DeCA's financial management systems did not comply with two of the FFMIA requirements noted above: (1) Federal financial management systems requirements, and (3) the application of the USSGL at the transaction level.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the FMFIA, (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, (3) ensuring DeCA's financial management systems are in substantial compliance with FFMIA requirements, and (4) complying with other applicable laws, regulations and contracts.

Auditors' Responsibility

We are responsible for: (1) obtaining a sufficient understanding of internal controls over financial reporting to plan the audit; and (2) testing compliance with certain provisions of laws, regulations, and contracts.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, and contracts applicable to DeCA. We limited our tests of compliance to certain provisions of laws, regulations and contracts which could have a material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Status of Prior Year's Control Deficiency and Related Non Compliance with FFMIA

We have reviewed the status of DeCA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 17, 2014. However, DeCA's noncompliance with FFMIA, and the related control deficiency (*Financial Reporting and Analysis)*, continue to exist, and are presented again in **Exhibits A and B.**

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DeCA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DeCA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Management's Response to Findings

Management's response to the findings identified in our report is presented in **Exhibit C.** We did not audit DeCA's response and, accordingly, we express no opinion on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Calverton, Maryland
November 17, 2015

EXHIBIT A
Defense Commissary Agency
Significant Deficiency
September 30, 2015

1. Financial Accounting, Reporting, and Analysis

Even though some progress has been made in FY 2015 by DeCA in addressing this significant deficiency noted in the FY 2014 Independent Auditors' Report, many of the conditions described in that report continue to exist and, along with others, are reported herein again as a significant deficiency.

As noted in **Exhibit B** to this report, DeCA's financial management systems do not comply with Federal financial management systems requirements, and the application of the United States Standard General Ledger (USSGL) at the transaction level.

The manner in which certain accounting transactions are recorded by DeCA is affected by these system limitations. For example, DeCA has to record many accounting transactions outside its general ledger and related sub-accounting system modules throughout the year, resulting in a high volume of manual journal vouchers (JVs) being prepared prior to the compilation of its financial statements. The manually intensive financial reporting process is very time consuming and, accordingly, the risk of error in reported amounts is high.

Specifically, in connection with its preparation of its financial statements for the quarter ended June 30, 2015, DeCA prepared 194 JVs to a variety of accounts with an absolute value of approximately $15 billion. The number and value of JVs processed by DeCA prior to preparing its financial statements increased substantially at September 30, 2015. Many of these 232 JV's were similar in nature to those prepared at June 30th, with an absolute value of approximately $20.5 billion. This equates to approximately 814 JVs totaling approximately $65.5 billion for the entire fiscal year.

In addition, DeCA's inventory accounts require significant manual intervention to record a variety of accounting events, including allowances for losses relating to physical changes to inventory during the year. Through September 30, 2015, thirty-eight inventory related JVs were processed with an absolute value of $2 billion. The volume and complexity of the JVs processed in the inventory general ledger accounts increases the risk that the composition of the inventory value (cost, shrinkage and valuation adjustments) at year end is incorrectly reported in the inventory note to DeCA's financial statements.

System limitations have also indirectly affected DeCA's recording of certain vendor transactions, resulting in inconsistent reporting of revenues and expenses by certain commissaries.

Even though we found that the dollar impact of certain vendor transactions being recorded inconsistently were immaterial to the financial statements, JVs (including those for inventory) processed during the year were materially correct, and DeCA has compensating controls to monitor the use of these JVs, the risk of error in DeCA's financial statements during the year is substantially increased by these situations. Accordingly, the noted system limitations and resulting extensive manual financial reporting processes collectively are considered a significant deficiency in internal control.

Recommendations:

We continue to recommend that DeCA:

1. Monitor the volume and nature of manual JVs to ensure that JVs are only used for transactions that cannot be handled by the current accounting systems (including relevant modules).
2. Employ compensating control procedures, process and detailed reconciliations, and other analytical tools to review period end financial statements to ensure that amounts reported in the financial statements are accurately presented.
3. Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.

EXHIBIT B

Defense Commissary Agency
Non-Compliance with Laws and Regulations
September 30, 2015

Systems' Non-Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

Background Information and Condition:
As noted in our prior year Independent Auditors' Report dated November 17, 2014, DeCA had not substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA), specifically with respect to applicable Federal financial management systems requirements and use of the U.S. Standard General Ledger (USSGL) at the transaction level for several years. This matter has not yet been resolved in fiscal year 2015.

DeCA's mission critical financial applications continue to be supported by aging and outdated technology, and are in need of replacement to address performance, flexibility, and system interface issues. Specifically, DeCA uses two separate accounting systems to process financial transactions, one of which accounts for transactions associated with the appropriated funds and surcharge collections, and the other accounts for all resale inventory transactions. These two systems do not interface and, accordingly, DeCA is not in compliance with Federal financial management system requirements, which call for a single, integrated financial system.

Both systems are not compliant with the USSGL. For example, one system does not contain a general ledger account to record unexpended appropriation transfers. In addition, the Defense Finance and Accounting Service (DFAS) – Columbus Center and DeCA personnel must use a combination of information inside and outside of that system to calculate unexpended appropriation transfers at the end of each reporting period. Also, neither system is able to process transactions in accordance with the USSGL at the detail level, resulting in the need to apply extensive manual processes to adjust balances in those systems prior to DeCA preparing its financial statements. We have been informed that the legacy systems being used by DeCA are in the process of being replaced, and the DoD is currently developing an enterprise business system for certain Defense agencies, referred to as the Defense Agencies Initiative or DAI. The DAI is expected to allow DeCA to comply with both the Federal financial management systems requirements and the USSGL at the transaction level. In accordance with the system roll out schedule, DeCA is projected to implement the new system in FY 2018.

Recommendation**:** We recommend that DeCA continue to work with DoD (including DFAS) to implement actions to replace its accounting systems to one that is fully integrated and in compliance with the requirements of FFMIA.

EXHIBIT C

Defense Commissary Agency
Management's Response to Independent Auditors' Report
September 30, 2015

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1300 E AVENUE
FORT LEE, VIRGINIA 23801-1800

November 17, 2015

Mr. Sal Ercolano, Principal
CliftonLarsonAllen, LLP
11710 Beltsville Drive, Suite 300
Calverton, Maryland 20705

Mr. Ercolano:

In response to the Independent Auditors' Report dated November 17, 2015, of the fiscal years 2015 and 2014 financial statements of the Defense Commissary Agency (DeCA), management generally agrees with all findings of this report. Specifically, DeCA provides the following comments related to the significant deficiencies described in Exhibits A and B of the report.

As noted in Exhibits A.1., *Financial Accounting, Reporting, and Analysis* and Exhibit B *Noncompliance with Federal Financial Management Improvement Act (FFMIA)*, DeCA's Federal Financial Management systems requirements and use of the U.S. Standard General Ledger (USSGL) at the transaction level are not in compliance with the FFMIA of 1996. DeCA acknowledges the non-compliance of the FFMIA as a result of aging and outdated technology from two legacy accounting systems, the Defense Business Management System (DBMS) and the Standard Finance System (STANFINS).

Consequently, the lack of compliance necessitates the need for an increased number of manually processed journal vouchers (JVs) to ensure that financial statements are reported accurately. To mitigate the increased risk associated with this manual intervention, DeCA has employed a series of compensating controls including systems reconciliations, JV reviews and approvals, and USSGL crosswalks. DeCA, along with the Defense Finance and Accounting Service, have been and will continue to employ various controls throughout the JV process to ensure that these entries are monitored for accuracy, nature, and necessity.

Exhibit B further defines the FFMIA systems noncompliance issue as it relates to laws and regulations. The Agency's long range resolution to the FFMIA systems noncompliance issue continues to be the implementation of one integrated accounting system. DeCA continues to work under the guidance and lead of the Office of the Secretary of Defense, along with other Defense Agencies, in the anticipation of deployment of one standardized system solution to comply with the Department's Standard Financial Information Structure and Office of Federal Financial Management requirements. DeCA is projected for implementation in FY 2018.

If there are additional concerns regarding these responses, please address those to me or Ms. Edna Willis, Chief, Compliance and Reporting Branch. Ms. Willis can be contacted at (804) 734-8000 X48806 or edna.willis@deca.mil.

Sincerely,

Lauren P. Bands, Jr.
Chief Financial Officer

Your Commissary ... It's Worth the Trip!

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Glossary of Acronyms

ACSI	–	American Customer Satisfaction Index
AFR	–	Agency Financial Report
BSC	–	Balance Scorecard
BSF	–	Buildings, Structures, and Facilities
CCSS	–	Commissary Customer Service Survey
CDC	–	Central Distribution Center
CFO	–	Chief Financial Officer
CLA	–	CliftonLarsonAllen
CLASS	–	Commissary Levels of Authorized Standard Services
CPI	–	Continuous Process Improvement
CRA	–	Continuing Resolution Authority
CY	–	Calendar Year
DeCA	–	Defense Commissary Agency
DFAS	–	Defense Finance and Accounting Service
DLA	–	Defense Logistics Agency
DoD	–	Department of Defense
DoDI	–	Department of Defense Instruction
DOL	–	Department of Labor
EBS	–	Enterprise Business Solution
EO	–	Executive Order
EPA	–	Environmental Protection Agency
EUI	–	Energy Use Intensity
FBWT	–	Fund Balance with Treasury
FASAB	–	Federal Accounting Standards Advisory Board
FCI	–	Facility Condition Index

FECA	–	Federal Employees Compensation Act
FEGLI	–	Federal Employees Group Life Insurance
FEHB	–	Federal Employee Health Benefits
FERS	–	Federal Employees Retirement System
FIAR	–	Financial Improvement and Audit Readiness
FFMIA	–	Federal Financial Management Improvement Act of 1996
FMFIA	–	Federal Managers' Financial Integrity Act
FY	–	Fiscal Year
GAAP	–	Generally Accepted Accounting Principles
GF	–	General Funds
GOTS	–	Government Off-the-Shelf
HUBZone	–	Historically Underutilized Business Zone
ICOFR	–	Internal Controls over Financial Reporting
ICOFS	–	Internal Controls over Financial Systems
ICONO	–	Internal Controls over Non-Financial Operations
IDEAS	–	Improve Defense Commissary Agency's Efficiency and Service
IWTD	–	Individuals with Targeted Disabilities
KBTU	–	Kilo British Thermal Units
LAC	–	Latest Acquisition Cost
MICP	–	Manager's Internal Controls Program
NESHAP	–	National Emission Standards for Hazardous Air Pollutants
OAS	–	Organizational Assessment Survey
OMB	–	Office of Management and Budget
OPM	–	Office of Personnel Management
PAR	–	Performance and Accountability Report
POM	–	Program Objective Memorandum
PP&E	–	Property, Plant, and Equipment

QPR	–	Quarterly Performance Reviews
RCRA	–	Resource Conversation and Recovery Act
ROI	–	Return on Investment
SAT	–	Senior Assessment Team
SB	–	Small Business
SBR	–	Statement of Budgetary Resources
SCNP	–	Statement of Changes in Net Position
SDB	–	Small Disadvantaged Business
SDVOSB	–	Service Disabled, Veteran-Owned, Small Business
Treasury	–	United States Department of the Treasury
TSCA	–	Toxic Substance Control Act
US	–	United States
USC	–	United States Code
USSGL	–	United States Standard General Ledger
WCF	–	Working Capital Fund
WOSB	–	Woman-Owned Small Business
WUI	–	Water Use Intensity