

Defense Commissary Agency Annual Report 2006



Our mission

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 warfighters' peace of mind, knowing their families have secure and affordable access to American products.**



4

From the director

7

Who we are

9

Who we serve

11

What we accomplished

13

**Increasing the value
of the benefit**

15

Major challenges

16

Conclusion

17

Financials

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From the director ...

FISCAL 2006 was another positive year for the Defense Commissary Agency. Once again, we reached new highs in sales growth and customer service. Completed reorganization and centralization of agency support functions, along with re-engineered processes, increased the value of the benefit without increasing its cost.

Once again, the numbers say it all: Sales were up, costs were down, customer satisfaction ratings went up, and customer savings remained constant.

Sales up; costs down

While not a primary goal, increased sales represent an important measure of merit for us, because they are a visible demonstration of the value of the commissary benefit to our patrons. Though sales growth in the commercial supermarket sector continued to lag, our sales increased \$48 million over fiscal 2005, coming in at \$5.42 billion. At the same time, our costs came in under program, while we continued to deliver savings of 32 percent to our patrons — thanks in no small part to the tremendous support our trading partners provide in pricing and promoting their products. It is this level of savings and the fact that we can deliver it to all of our locations worldwide that make the commissary one of the military's most-valued benefits.

As for customer service, we can say with confidence that our patrons like what we do, as evidenced by the overall 4.61 rating (on a scale of 1 to 5) we received from them on the annual Commissary Customer Service Survey — exceeding our fiscal 2006 goal by 3.1 percent.

We are also understandably proud of our demonstrated fiscal responsibility in that for the fifth year in a row, independent auditors have given our financial statements an unqualified opinion.



JAMES KEGLEY

Patrick B. Nixon

It is performance results like these that make it possible for us to set a self-imposed goal of increasing the value of the benefit without increasing its cost.

While sales, savings and customer satisfaction remained strong, the real story behind our sustained excellence has been our evolution into a more efficient and effective organization. We have achieved this through the creativity and dedication of our employees and managers, the course laid out by our strategic planners, the support of those in the Pentagon and on Capitol Hill, the implementation of new technology and best business practices, the streamlining and improvement of our business processes using Lean Six Sigma, and an aggressive outreach program that is delivering the benefit to all segments of our customer base.

Looking back on our accomplishments over the past year, we in DeCA are justifiably proud of the contributions we have made to the quality of life of our nation's military and their families, and we look to the future with renewed energy, incentive and enthusiasm as we face even more challenging times ahead.

A handwritten signature in black ink, reading "Patrick B. Nixon". The signature is fluid and cursive, with a large, stylized initial "P".

PATRICK B. NIXON

Director and Chief Executive Officer



**Our vision:
Patrons, workforce and stakeholders working
together to create 'Raving Fans'!**

Who we are ...

From its headquarters at Fort Lee, Va., the Defense Commissary Agency operates a worldwide system of commissaries that provide quality grocery products at cost to active duty and retired military personnel, reservists, members of the National Guard, and their families.

Established by Congress more than 130 years ago, commissaries are considered an integral part of the military compensation package, providing the military community stationed throughout the world with significant savings on recognizable American products in a safe and secure environment.

The Defense Commissary Agency was activated Oct. 1, 1991, consolidating duties and functions previously administered by the individual commissary systems of the four military services. The consolidation followed two years of planning that began in 1989 when the House Armed Services Committee directed the Defense Department to study the feasibility of consolidating the services' commissary systems to provide better service to military patrons at lower cost.

Today, three regional offices provide day-to-day management and support. DeCA East and DeCA West manage stores in the continental United States, Puerto Rico and the Pacific; DeCA Europe manages commissaries in Europe. The agency also operates 10 central distribution centers in Europe, the Pacific and Alaska, and a central meat processing plant in Germany.

Field operating activities perform services for the regional offices and their commissaries that include centralized purchasing of national-brand sales items and centralized resale accounting.

The agency is managed in a cost-and-output culture where activity-based management is a way of life. This has enabled it to provide greater savings for service members and their families on the goods and services they purchase than at any other time in history — while at the same time holding down the cost to taxpayers.

A component of the Department of Defense, the agency reports to the undersecretary of defense for personnel and readiness. Oversight is provided by the Defense Department's Commissary Operating Board, comprised of senior officer, enlisted and civilian representatives from each of the military services and the secretariats of the military departments.



Our goals:

- ▶ **Preserve and deliver a premier quality-of-life benefit.**
- ▶ **Transform the workforce to become more agile, knowledgeable and motivated to provide exceptional customer service.**
- ▶ **Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.**

Who we serve ...

The Defense Commissary Agency delivers name-brand grocery products in a safe and secure environment and at exceptional savings to the men and women of the armed services community worldwide.

This premier quality-of-life benefit, consistently ranked by service members and their families as one of their top nonpay benefits, improves the financial viability of military families and other authorized patrons, aids in recruiting and retaining qualified people on active duty, helps maintain morale and fulfills prior commitments made to military retirees.

Commissary patrons purchase items at cost, plus a 5 percent surcharge that covers the cost of building new commissaries and modernizing existing ones. Shoppers save an average of more than 30 percent on their purchases compared to commercial prices — savings of nearly \$3,000 annually for a family of four that shops regularly at a commissary. These savings are particularly important for military families living overseas and in high-cost metropolitan areas of the United States.

Authorized users of the commissary benefit total about 12 million. These include all active and retired members of the uniformed services including the Coast Guard; members of the Reserve and National Guard; National Oceanic and Atmospheric Administration personnel; commissioned officers of the U.S. Public Health Service; the family members, widows and orphans of all such members; 100-percent-disabled veterans; Medal of Honor recipients; and Department of Defense civilian employees stationed overseas.



Our values:
'LIFE'

Leadership:
We expect passion,
courage and excellence!

Integrity:
We demand honesty,
professionalism and
trustworthiness!

Flexibility:
We cultivate innovation,
empowerment and
competence!

Enjoyment:
We foster teamwork,
recognition and
opportunity!

What we accomplished ...

Fiscal 2006 was another impressive and successful year for the Defense Commissary Agency in terms of sales growth, customer service and fiscal responsibility.

► **Sales ...** During fiscal 2006, the agency posted annual sales of \$5.42 billion, an increase of \$48 million over last year, despite the closure of additional commissaries and the continuing impact of the hurricane devastation on several stores in the Gulf Coast region in 2005. This latest increase marked the fourth straight year of sales increases for the agency, setting another DeCA record.

Benchmark	DeCA	Industry Avg
Sales per customer/wk	\$ 61	\$ 31
Sales per store/wk	\$ 506,968	\$ 297,496
Sales per sq foot/wk	\$ 16	\$ 7
Sales per checkout/wk	\$ 34,452	\$ 27,344
Hours per store/wk	59	118

► **Unit cost ...** At the same time, costs came in under program. In fact, when measured in constant fiscal 2000 dollars, administration of the commissary benefit today remains below what it cost in 2000. Going back to the year DeCA was activated and using constant fiscal 1992 dollars, the benefit delivered today costs just a little more than half of what it did then. This reduction in constant dollar cost has been gained, not at the expense of customers, but because of efficiencies developed and deployed throughout the agency.

► **Customer service ...** In the areas of customer service and satisfaction, commissary patrons apparently liked what was happening, as evidenced by the overall customer service score of 4.61 (on a scale of 1 to 5) the agency received on its annual Commissary Customer Service Survey. The American Customer Satisfaction Index validated these internal measurements externally, and for two years running scored DeCA at 77 — currently two points higher than the national average for commercial supermarkets.

► **Fiscal responsibility ...** In addition to recording superior, retailerlike statistics, DeCA also demonstrated it possesses the governance attributes of a model governmental entity, as evidenced by receiving a fifth consecutive clean audit opinion on its financial records. That audit looked at all of the agency's money accounts as well as its daily activities, such as how accurately it records time and attendance, and maintains physical inventory and accountability records.



It is performance results like these that make it possible for us to set a self-imposed goal of increasing the value of the benefit without increasing its cost.

-- Patrick Nixon, DeCA director and chief executive officer

Increasing the value of the benefit ...

Efficiency, effectiveness and service remain hallmarks of our passion to increase the value of the commissary benefit without increasing its cost.

▶ **“It’s Your Choice, Make It Healthy” ...** Partnering with TRICARE, the military’s health care provider, DeCA’s dynamic “It’s Your Choice, Make It Healthy” program highlights healthy foods available in military commissaries. The agency’s new dietitian will increase opportunities to educate customers on how to select healthier meal items at the commissary. In combination with these initiatives, selection of natural and organic foods continues to grow.

▶ **Outsourcing produce ...** Last year’s adoption of the best practices of the supermarket industry in produce procurement proved successful beyond anyone’s imagination. Wherever the change took place, tonnage sold went up, patron savings increased, and customer satisfaction skyrocketed. Shoppers bought more produce, because they got higher quality at lower prices. Sales jumped a phenomenal 5 percent.

▶ **Reshaping the workforce ...** DeCA continued rolling out its prototype store concept designed around a simple, easy-to-manage, cost-effective and more productive workforce. The final model combines 12 different position descriptions into two — a multiskilled store associate and a general manager. Implementation went well in 2006 and should be complete in all U.S. stores by the end of 2008.

▶ **Leveraging technology ...** The agency continued deploying its new generation of front-end technology, the Commissary Advanced Resale Transaction System, or CARTS, to provide a simple, accurate and secure scanning system for purchases. A 15-inch, color-screen display provides customers a convenient view of their purchases, and hand-held scanners help cashiers reach bulkier items in the cart. Different self-checkout modules for small, medium and large orders facilitate any customer’s checkout needs.

▶ **Outreach ...** DeCA continued outreach to National Guard and Reserve members via off-site truckload sales. Particularly for these patrons, another exciting expansion in the works features Virtual Commissary, our Internet service that currently offers product gift packs at commissary-negotiated prices. Soon we will offer many more items, as we anticipate selecting a contractor who will pick, pack and ship individual products ordered by authorized patrons around the world.

Other well-established outreach programs available through the commissary continued helping military families as well. Since the Gift of Groceries program began in 2002, more than \$11 million in commissary gift certificates have been provided to military members and their families. Our successful partnership dating back to 2001 with the Fisher House Foundation on the Scholarships for Military Children Program has awarded more than \$4 million to nearly 3,000 students, with each of 500 more students receiving a \$1,500 scholarship as they head to college in fall 2007. Our generous industry partners and the general public fully fund these scholarships.



... we in DeCA are justifiably proud of the contributions we have made to the quality of life of our nation's military and their families.

*-- Patrick Nixon, DeCA director
and chief executive officer*

OTICS

FRUIT



Major challenges ...

Fiscal 2006 was also a year of challenges for the agency, marked by:

- Preparations for base realignment and closure and re-stationing initiatives;
- Continued re-engineering of support functions and business processes to increase the value of the benefit without increasing its cost; and
- Rising construction costs.

► **BRAC impact ...** After the dust settled, only six installations with a commissary are scheduled to close as a result of base realignment and closure actions. However, global re-stationing will impact 28 commissaries. Most significantly, six overseas and 10 stateside installations with commissaries expect to gain significant personnel increases. Modifying the stores at those locations presents a challenge for DeCA as it evaluates these needs and available funding alternatives. We must reprioritize our construction program and re-evaluate our store replacement model to accommodate these additional requirements.

► **Re-engineering ...** The purpose of DeCA's re-engineering efforts is to drive unnecessary costs out of the system so that it can reinvest those dollars to increase the value of the benefit to the patron. We completed realigning and centralizing our regions, closing the former region offices in Virginia Beach and San Antonio. We further optimized our business processes using Lean Six Sigma, completing 17 projects that increased operational efficiency while reducing cost.

► **Construction costs ...** We remain locked into a surcharge dilemma, wrestling with the daily challenge of escalating construction costs not just from perpetual infrastructure upgrade and replacement, but also from BRAC requirements, strategic re-stationing, and keeping commissaries compliant with anti-terrorism and force protection requirements.

Conclusion ...

The commissary benefit remains critical to strengthening and preserving the armed services' quality of life and has an exceptionally positive impact on recruiting, retention and readiness of today's military.

The Defense Commissary Agency stands committed to providing the armed services community with this valuable benefit to supplement military income as an integral part of the military's overall pay and benefits package.

DeCA continues progressive rollout of concepts and initiatives to increase the value of the benefit via technology, including "Virtual Commissary" — Internet sales of commissary items to its authorized patrons; and CARTS — the Commissary Advanced Resale Transaction System — a major acquisition program to replace our stores' aging point-of-sale system.

As always, in all of its actions and initiatives, DeCA remains focused on its customers and we will continually strive to exceed their expectations while delivering both a critical economic advantage and a "taste of home" to service members deployed around the world.

We will continue to deliver a premier commissary benefit — relevant, responsive and recognized — to the men and women of the armed services community — a global mission serving a global force.

BRING HOME THE SAVINGS

BRING HOME THE SAVINGS

**DeCA
Financials**

**DEFENSE COMMISSARY AGENCY
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2006
(in thousands)**

	2006	2005
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 617,791	\$ 502,163
Accounts receivable and other	179	539
Total intragovernmental assets	617,970	502,702
Cash	93,755	99,198
Accounts receivable and other	43,001	61,079
Inventory	349,937	350,948
General property, plant, and equipment, net (Note 3)	748,033	804,914
Total assets	\$ 1,852,696	\$ 1,818,841
Liabilities (Note 4)		
Intragovernmental:		
Accounts payable	\$ 120,267	\$ 121,443
Other liabilities	40,532	39,898
Total intragovernmental liabilities	160,799	161,341
Accounts payable	461,930	447,293
Federal Employees Compensation Act actuarial liability	165,173	171,207
Environmental liabilities	29,040	31,866
Other liabilities	73,885	72,665
Total liabilities	890,827	884,372
Net position (Note 5)		
Unexpended appropriations	26,346	50,384
Cumulative results of operations - earmarked funds (Note 9)	990,807	-
Cumulative results of operations - other funds	(55,284)	-
Total cumulative results of operations	935,523	884,085
Total net position	961,869	934,469
Total liabilities and net position	\$ 1,852,696	\$ 1,818,841

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

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 - FUND BALANCE WITH TREASURY

FBWT consists of three types of funds – appropriated funds, revolving, and trust funds. Revolving funds involve DeCA’s Resale fund, trust funds involve the Surcharge Collections fund, and appropriated funds include commissary operations, military construction and procurement funds.

The following table shows the balance for each type of fund as of September 30, 2006 and 2005:

<u>Fund balances:</u>	<u>2006</u>	<u>2005</u>
Appropriated funds	\$ 241,213	\$ 233,476
Revolving funds	69,765	59,154
Trust funds	<u>306,813</u>	<u>209,533</u>
Total	<u>\$ 617,791</u>	<u>\$ 502,163</u>

The following table shows the status of the fund balances as of September 30, 2006 and 2005:

<u>Status of fund balances:</u>	<u>Appropriated</u>	<u>Revolving</u>	<u>Trust</u>	<u>Total</u>
Unobligated balance available	\$ 6,417	\$ -	\$ -	\$ 6,417
Unobligated balance unavailable	15	-	13,084	13,099
Obligated balance not yet disbursed, net of contract authority	<u>234,781</u>	<u>69,765</u>	<u>293,729</u>	<u>598,275</u>
Total as of September 30, 2006	<u>\$ 241,213</u>	<u>\$ 69,765</u>	<u>\$ 306,813</u>	<u>\$ 617,791</u>

<u>Status of fund balances:</u>	<u>Appropriated</u>	<u>Revolving</u>	<u>Trust</u>	<u>Total</u>
Unobligated balance available	\$ 11,457	\$ -	\$ -	\$ 11,457
Unobligated balance unavailable	15	-	-	15
Obligated balance not yet disbursed, net of contract authority	<u>222,004</u>	<u>59,154</u>	<u>209,533</u>	<u>490,691</u>
Total as of September 30, 2005	<u>\$ 233,476</u>	<u>\$ 59,154</u>	<u>\$ 209,533</u>	<u>\$ 502,163</u>





**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3 - GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) at September 30, 2006 and 2005 is summarized as follows:

<u>PP&E category</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings, structures, and facilities	\$ 1,833,065	\$ (1,176,896)	\$ 656,169
Software	10,356	(6,223)	4,133
Equipment and other assets	168,228	(145,875)	22,353
Construction-in-progress	65,378	-	65,378
Total as of September 30, 2006	\$ 2,077,027	\$ (1,328,994)	\$ 748,033

<u>PP&E category</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings, structures, and facilities	\$ 1,812,264	\$ (1,134,248)	\$ 678,016
Software	9,660	(5,555)	4,105
Equipment and other assets	175,318	(126,989)	48,329
Construction-in-progress	74,464	-	74,464
Total as of September 30, 2005	\$ 2,071,706	\$ (1,266,792)	\$ 804,914

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2006 and 2005:

<u>Intragovernmental:</u>	<u>Covered by</u>	<u>Not Covered</u>	
	<u>Budgetary</u>	<u>by Budgetary</u>	
	<u>Resources</u>	<u>Resources</u>	<u>Total</u>
Accounts payable	\$ 120,267	\$ -	\$ 120,267
Other liabilities	2,796	37,736	40,532
Subtotal	123,063	37,736	160,799
<u>With the public:</u>			
Accounts payable	461,930	-	461,930
Federal Employees Compensation Act actuarial liability	-	165,173	165,173
Environmental liability	-	29,040	29,040
Other liabilities	20,415	53,470	73,885
Subtotal	482,345	247,683	730,028
Total as of September 30, 2006	\$ 605,408	\$ 285,419	\$ 890,827

<u>Intragovernmental:</u>	<u>Covered by</u>	<u>Not Covered</u>	
	<u>Budgetary</u>	<u>by Budgetary</u>	
	<u>Resources</u>	<u>Resources</u>	<u>Total</u>
Accounts payable	\$ 121,443	\$ -	\$ 121,443
Other liabilities	2,722	37,176	39,898
Subtotal	124,165	37,176	161,341
<u>With the public:</u>			
Accounts payable	447,293	-	447,293
Federal Employees Compensation Act actuarial liability	-	171,207	171,207
Environmental liability	-	31,866	31,866
Other liabilities	22,260	50,405	72,665
Subtotal	469,553	253,478	723,031
Total as of September 30, 2005	\$ 593,718	\$ 290,654	\$ 884,372



**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS**

(NOTE 4 - LIABILITIES, continued)

Other liabilities consist primarily of workers' compensation, accrued payroll and benefits, accrued unfunded annual and other leave, and foreign national separation pay. The following table summarizes other liabilities current and non-current as of September 30, 2006 and 2005.

<u>Other liabilities</u>	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
<u>Intragovernmental:</u>	<u>Liabilities</u>	<u>Liabilities</u>	
Workers compensation	\$ 16,336	\$ 21,400	\$ 37,736
Employer contributions and payroll taxes payroll	2,796	-	2,796
Subtotal	19,132	21,400	40,532
With the public:			
Accrued funded payroll and benefits	20,415	-	20,415
Foreign national separation pay	13,722	-	13,722
Accrued unfunded annual leave	39,748	-	39,748
Subtotal	73,885	-	73,885
Total as of September 30, 2006	<u>\$ 93,017</u>	<u>\$ 21,400</u>	<u>\$ 114,417</u>

<u>Other liabilities</u>	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
<u>Intragovernmental:</u>	<u>Liabilities</u>	<u>Liabilities</u>	
Workers compensation	\$ 15,938	\$ 21,238	\$ 37,176
Employer contributions and payroll taxes payroll	2,722	-	2,722
Subtotal	18,660	21,238	39,898
With the public:			
Accrued funded payroll and benefits	22,260	-	22,260
Foreign national separation pay	12,336	-	12,336
Accrued unfunded annual leave	38,069	-	38,069
Subtotal	72,665	-	72,665
Total as of September 30, 2005	<u>\$ 91,325</u>	<u>\$ 21,238</u>	<u>\$ 112,563</u>

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 5 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2006 and 2005:

Net position:	General	Working	Total
	Fund	Capital	
Unexpended appropriations	\$ 934	\$ 25,412	\$ 26,346
Cumulative results of operations - earmarked funds	990,807	-	990,807
Cumulative results of operations - other funds	-	(55,284)	(55,284)
Total cumulative results of operations	990,807	(55,284)	935,523
Total as of September 30, 2006	\$ 991,741	\$ (29,872)	\$ 961,869

Net position:	General	Working	Total
	Fund	Capital	
Unexpended appropriations	\$ 598	\$ 49,786	\$ 50,384
Cumulative results of operations	949,289	(65,204)	884,085
Total as of September 30, 2005	\$ 949,887	\$ (15,418)	\$ 934,469

NOTE 9 – EARMARKED FUND

The following table presents condensed data relating to DeCA's earmarked fund, the Surcharge Trust Fund, as of and for the year ended September 30, 2006:

Balance Sheet

Assets

Fund balance with Treasury	\$ 306,813
Cash and accounts receivable	5,071
Property, plant, and equipment	729,155
Total assets	\$ 1,041,039

Liabilities

Accounts payable	\$ 21,192
Environmental liabilities	29,040
Total liabilities	50,232
Cumulative results of operations	990,807
Total liabilities and net position	\$ 1,041,039

Statement of Net Cost

Program costs	\$ 261,781
Less: earned revenue	(318,930)
Net (income) of operations	\$ (57,149)

