



Defense Commissary Agency

Annual Report 2007





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.



From the director 4

Who we are 6

Who we serve 8

What we accomplished 10

Increasing the value 12

Conclusion 14

Financials 16

from the director...

AS WE BEGAN our 16th year of delivering the premier quality-of-life benefit to our country's most deserving customers and their families, the commissary benefit remained strong. Our numbers for fiscal 2007 say it all — sales continued to grow, the cost of delivering the commissary benefit came in under budget, and customer service and patron savings levels remained steady.

Our patrons continued to express their appreciation for the commissary benefit with their wallets. Annual sales totaled \$5.54 billion in 2007, a 2.2 percent increase over 2006. These increased sales reflect DeCA's performance in providing a benefit that is highly valued by the men and women who earned it. Moreover, our customers consistently tell us we're doing it right, as results of both internal and external surveys continue to reflect high levels of satisfaction with all aspects of our delivery of the commissary benefit.

Savings continues to be the heart of the benefit. DeCA delivers grocery items at the same price to all locations, including remote sites and overseas. These savings average 31.9 percent when compared to commercial supermarket prices, which amounts to savings of more than \$3,000 annually for an average family of four that shops regularly at a commissary.

As always, our strategic focus is to provide the best possible benefit to our customers while controlling cost to the taxpayer. In 2007, we expanded our support to the Guard and Reserve through additional outreach efforts and the expansion of on-site sales at Guard and Reserve locations from less than 25 to almost 150. At the same time, our employment initiatives significantly increased support for military families and wounded warriors. We continued to

seek out innovative process improvements and technological advances, to become better stewards of the benefit while providing a relevant shopping experience in a most competitive retail food industry. We assess our progress and performance in these areas through an integrated corporate focus on the effectiveness and execution of the agency's strategies, initiatives and programs, and review progress and performance results at all levels. This allows executive and senior leadership to make better informed decisions and course adjustments as necessary.

In fiscal 2007, we met the challenge of increased construction costs — up 44 percent since 2003 — by ensuring adequate funding of sustainment and repair while pursuing a more modest major construction program. The issue of proper funding of construction requirements generated by base realignment and closures or military re-stationing was raised in 2007, and we looked forward to its resolution by the Department of Defense and a potential reduction in surcharge fund requirements.

Also in fiscal 2007, we again joined a select group of only three other DoD agencies when independent auditors gave DeCA its sixth consecutive “unqualified opinion” regarding the accuracy of our financial statement.

Our administration and operation of the commissary benefit have never been stronger. Commissaries deliver a highly valued component of military compensation and bring a morale-building “taste of home” to service members and their families by providing familiar American food products in overseas locations where such products are often unavailable. The employees of DeCA are proud to serve the most deserving customers in the world and are particularly privileged to be entrusted with helping care for the welfare of the families of those who are serving in harm's way!



Philip E. Sakowitz Jr.





who we are...

FROM ITS headquarters at Fort Lee, Va., the Defense Commissary Agency operates a worldwide system of commissaries that provides quality grocery products at cost to active-duty and retired military personnel, members of the National Guard and Reserve, and their families.

Established by Congress more than 140 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 shopping environment.

DeCA was established 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 customers 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 and the Middle East. 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 controlling taxpayer costs.

As a component of the Department of Defense, the agency reports to the undersecretary of defense for personnel and readiness. Oversight is provided by the DeCA Board of Directors, which is comprised of senior officer, enlisted and civilian representatives from each of the military services and the secretariats of the military departments.



PASTA
PASTA SAUCES
MEXICAN FOOD
ORIENTAL FOODS



CANNED VEGETABLES
CANNED FISH
CANNED MEATS

SPICES-EXTRA
SUGAR
BAKING SUPPL
CANNED FRUIT



ourvision...

Patrons, Workforce and Stakeholders
working together to create "Raving Fans."

whoweserve...

THE DEFENSE Commissary Agency exists solely to provide a benefit. Commissary customers purchase items at cost plus a 5 percent surcharge, which covers the costs of building new commissaries and modernizing existing ones.

A core military family support element, and a valued part of military pay and benefits, commissaries contribute to family readiness, enhance the quality of life for America's military members and their families, and help recruit and retain the best and brightest men and women to serve their country.

Authorized users of the commissary benefit total more than 12 million. This includes 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 from all conflicts; and Department of Defense civilian employees stationed overseas.



ourgoals...

- 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.





what we accomplished...

FISCAL 2007 was another successful year for the Defense Commissary Agency in terms of sales, unit cost, customer service and fiscal responsibility.

Sales:

During fiscal 2007, DeCA posted annual sales totaling \$5.54 billion, a 2.2 percent increase over 2006. This latest increase marked the fifth straight year of sales increases for the agency, setting another DeCA record in a fiscal year when five replacement commissaries were built and four commissaries were closed.

Unit Cost:

Once again, unit costs came in under program. When measured in constant fiscal 2000 dollars, the cost of administering the commissary benefit today remains below what it cost in 2000. This reduction in constant dollar costs has been gained due to increased efficiencies developed and deployed throughout the agency, not at the expense of customer service.

The agency continues to use Lean Six Sigma to refine business processes and to instill an ongoing culture change which is in alignment with the DoD-wide Continuous Process Improvement Initiative. The agency continues to focus on continuous process improvement to streamline processes, reduce redundancies and eliminate unnecessary steps. At present, 12 projects have been completed and 13 others are ongoing in an effort to deliver more effective and efficient support to the stores.

Customer Service and Satisfaction:

In the area of customer service and satisfaction, commissary shoppers gave the agency an overall customer service score of 4.60 out of a possible 5.0 on the Annual Commissary Customer Service Survey. These internal measures were validated externally by the American Customer Satisfaction Index. DeCA's ACSI score in fiscal 2007 remained at 77 for the third year, and continues to be higher than the commercial supermarket industry average of 76. Customers reported to ACSI that DeCA's strengths are: perceived quality, perceived value, low customer complaints and customer loyalty.

Fiscal Responsibility:

DeCA continues to demonstrate the governance attributes of a successful governmental entity. For the past two years, the agency received the Defense Department's "Check It Award of Excellence" for receiving one of the top scores in DoD for its statement of assurance. This is an acknowledgment that DeCA's internal controls and systems for testing control effectiveness are some of the best in the business.

Also in fiscal 2007, independent auditors gave DeCA its sixth consecutive "unqualified opinion." An unqualified opinion says an organization's financial statements accurately represent the firm's financial standing as measured by the accepted accounting principles in the United States. The unqualified opinion puts DeCA in a select group with only three other DoD agencies that have received six consecutive unqualified or "clean" opinions.



values...

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!

value of the benefit...

THE DEFENSE Commissary Agency has four strategic initiatives that will increase the value of the benefit into 2008 and beyond:

- Focusing on people and leadership development
- Supporting the Guard and Reserve
- Going “greener”
- Increasing cooperation with military exchange stores

Focusing on People:

One of DeCA's strategic goals is transforming the workforce to become more agile, knowledgeable and motivated so team members provide exceptional customer service. Agency leaders recognize that to be successful, they must focus on a comprehensive plan that allows DeCA to attract, develop and retain high-performing employees and expand the talent pool. The agency is particularly interested in attracting people who

have an investment in the military services and the commissary, such as “wounded warriors” and military family members. These people not only understand the sacrifices commissary customers have made, but have a personal stake in improving the success of the commissary benefit.

One of DeCA's goals is to use the Student Education Employment Program as a vehicle to develop future leaders. DeCA currently employs more than 2,000 students in its stores and plans to convert a number of high-potential and interested students to the Student Career Experience Program and, ultimately, employ them as management interns in the stores. As students graduate and are hired as management interns, new students will be hired to replace them. A constant flow of students addresses the aging workforce challenge, allows the agency to attract the right person for the right job, and reduces vacancy fill time. For above-store-level needs, where many more technical disciplines are involved, the recruitment is focused on the requirements of each directorate.



Supporting the Guard and Reserve:

DeCA's effort in support of the Guard and Reserve is twofold — outreach or education aimed at giving service members and their families opportunities to “Discover Your Benefit” and expanding their access, allowing them to take advantage of the commissary benefit they have earned.

The “Discover Your Benefit” campaign emphasizes learning what DeCA offers. Outreach efforts include providing exhibits at Guard and Reserve conferences; industry-sponsored mass mailings of coupon booklets directly to Guard and Reserve units; promoting the commissary benefit through numerous Guard and Reserve publications; and meeting with Guard and Reserve commanders.

Expanding access includes bringing the benefit to the troops by holding on-site sales for Guard and Reserve members at installations where there is no commissary. In 2007, on-site sales, called “Bringing the Benefit to You,” were held at 21 Guard and Reserve locations, allowing Guard and Reserve families to purchase \$1.6 million worth of commissary products, at savings of more than 30 percent. DeCA team members also met with

Guard and Reserve leadership to identify locations for on-site sales that will maximize delivery of the benefit to geographically dispersed members in 2008 and beyond.

While on-site sales provide access to the commissary benefit, the agency is also actively reworking “Virtual Commissary,” DeCA's Internet sales outlet, to support Guard and Reserve location sales. This Web-based enhancement will allow Guard and Reserve members to select from an assortment of products, pay for those products using a credit or debit card and accept delivery at the military installation where they perform their military duty. These pre-paid Internet sales will allow DeCA to increase support to the Guard and Reserve while reducing the resources needed to hold on-site sales.

Going Greener:

The agency's Environmental Management System continually evaluates environmental aspects that impact operations and those that affect customers.

Energy-efficient lighting and refrigeration features included in new and renovated stores have enabled DeCA to reduce energy usage sufficiently to control overall energy costs as energy prices continue to soar. In fiscal 2007, DeCA adopted a program to reduce the agency's solid waste and at the same time produce revenue. Called “Trash for Cash,” this program recycles the cardboard and plastic wrap DeCA receives each day with the delivery of product from its suppliers. In 2007, this recycling effort netted \$3.7 million, which went into the surcharge fund. That figure is expected to approach \$5 million in 2008.

With Americans becoming more environmentally conscious, the agency introduced reusable cloth grocery bags strong enough to hold 30 pounds of groceries. These bags, which cost customers 70 cents each, have proven to be popular, with hundreds of thousands sold by the end of 2007. The growing use of the reusable bag by commissary patrons not only reduces the number of plastic and paper bags in landfills, it also generates cost avoidance for the paper or plastic bags that otherwise would be used.

Increase Cooperation with Exchanges:

DeCA has entered a new era of actively seeking to cooperate with military exchanges and de-conflict programs whenever possible. A prime example of cooperation that strengthens the entire military resale community occurred during the 2007 holiday season. DeCA and the Army and Air Force Exchange Service helped each other get the word out on specials the other was offering. An AAFES employee handed out AAFES flyers in the commissary featuring their after-Thanksgiving sales, and a DeCA employee handed out flyers in AAFES featuring holiday promotional items and pre-Thanksgiving Day operating hours in commissaries. This simple bilateral advertising provided great benefits for DeCA, AAFES and military customers.

DeCA and the exchanges are also teaming on promotions and parking lot sales. By sharing our promotional calendars and upcoming major sales events, all involved have developed complementary sales programs that benefit both the military resale system and customers. The exchanges also plan to join DeCA at many of its on-site sales planned at Guard and Reserve locations.



conclusion...

THE COMMISSARY benefit remains critical to strengthening and preserving the armed services' quality of life and has a positive impact on recruiting, retention and readiness for today's military.

The men and women working for DeCA stand 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.

As always, the Defense Commissary Agency remains focused on customers and will continually strive to exceed their expectations while delivering a "taste of home" to service members and their families 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.







DeCAfinancials...

DEFENSE COMMISSARY AGENCY
CONSOLIDATED BALANCE SHEETS
AS OF SEPT. 30
(in thousands)

Assets

	2007	2006
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 618,158	\$ 617,791
Accounts receivable and other	242	179
Total intragovernmental assets	618,400	617,970

Cash	125,048	93,755
Accounts receivable and other, net	41,664	43,001
Inventory	341,905	349,937
General property, plant, and equipment, net (Note 3)	774,342	748,033

Total assets	\$ 1,901,359	\$ 1,852,696
---------------------	---------------------	---------------------

Liabilities (Note 4)

Intragovernmental:		
Accounts payable	\$ 128,426	\$ 120,267
Other liabilities	40,195	40,532
Total intragovernmental liabilities	168,621	160,799

Accounts payable	466,135	461,930
Federal Employees Compensation Act actuarial liability	157,870	165,173
Environmental liabilities	32,315	29,040
Other liabilities	79,163	73,885

Total liabilities	904,104	890,827
--------------------------	---------	---------

Net position (Note 5)

Unexpended appropriations	\$ 41,645	\$ 26,346
Cumulative results of operations - earmarked fund	1,000,569	990,807
(Note 9)		
Cumulative results of operations - other funds	(44,959)	(55,284)
Total cumulative results of operations	955,610	935,523

Total net position	997,255	961,869
---------------------------	---------	---------

Total liabilities and net position	\$ 1,901,359	\$ 1,852,696
---	---------------------	---------------------

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, revolving and trust. The revolving fund involves DeCA's Resale Fund; the trust fund involves the Surcharge Collections Trust Fund; and appropriated funds include commissary operations, military construction, procurement funds, and the Hurricane Katrina Fund.

The following table shows the balance for each type of fund as of Sept. 30, 2007, and 2006:

Fund balances:	<u>2007</u>	<u>2006</u>
Appropriated funds	\$ 257,974	\$ 241,213
Revolving fund	42,838	69,765
Trust fund	<u>317,346</u>	<u>306,813</u>
Total	<u>\$ 618,158</u>	<u>\$ 617,791</u>

The following table shows the status of the fund balances as of Sept. 30, 2007, and 2006:

Status of fund balances:	<u>Appropriated</u>	<u>Revolving</u>	<u>Trust</u>	<u>Total</u>
Unobligated balance available	\$ 12,897	\$ -	\$ -	\$ 12,897
Unobligated balance unavailable	15	-	-	15
Obligated balance not yet disbursed, net of contract authority	245,062	42,838	317,346	605,246
Total as of Sept. 30, 2007	<u>\$ 257,974</u>	<u>\$ 42,838</u>	<u>\$ 317,346</u>	<u>\$ 618,158</u>

Status of fund balances:	<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	234,781	69,765	293,729	598,275
Total as of Sept. 30, 2006	<u>\$ 241,213</u>	<u>\$ 69,765</u>	<u>\$ 306,813</u>	<u>\$ 617,791</u>

DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - GENERAL PROPERTY, PLANT AND EQUIPMENT

General property, plant and equipment (PP&E) at Sept. 30, 2007, and 2006 is summarized as follows:

<u>PP&E category</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings, structures, and facilities	\$ 1,924,266	\$ (1,236,828)	\$ 687,438
Software	32,194	(9,252)	22,942
Equipment and other assets	176,046	(135,384)	40,662
Construction-in-progress	23,300	-	23,300
Total as of Sept. 30, 2007	\$ 2,155,806	\$ (1,381,464)	\$ 774,342

<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 Sept. 30, 2006	\$ 2,077,027	\$ (1,328,994)	\$ 748,033

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 Sept. 30, 2007, and 2006:

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<u>Intragovernmental:</u>			
Accounts payable	\$ 128,426	\$ -	\$ 128,426
Other liabilities	\$ 2,768	37,427	40,195
Subtotal	\$ 131,194	37,427	168,621
<u>With the public:</u>			
Accounts payable	\$ 466,135	\$ -	\$ 466,135
Federal Employees Compensation Act actuarial liability	-	157,870	157,870
Environmental liabilities	-	32,315	32,315
Other liabilities	20,215	58,948	79,163
Subtotal	486,350	249,133	735,483
Total as of Sept. 30, 2007	\$ 617,544	\$ 286,560	\$ 904,104

	<u>Covered by Budgetary Resources</u>	<u>Not Covered by Budgetary Resources</u>	<u>Total</u>
<u>Intragovernmental:</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 liabilities	-	29,040	29,040
Other liabilities	20,415	53,470	73,885
Subtotal	482,345	247,683	730,028
Total as of Sept. 30, 2006	\$ 605,408	\$ 285,419	\$ 890,827

PAPER TOWELS
TOILET TISSUE
ADULT INCONTINENCE
PET TREATS

DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS

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 Sept. 30, 2007, and 2006.

	<u>Current</u> <u>Liabilities</u>	<u>Non-Current</u> <u>Liabilities</u>	<u>Total</u>
<u>Other liabilities</u>			
<u>Intragovernmental:</u>			
Workers' compensation	\$ 16,444	\$ 20,983	\$ 37,427
Employer contributions and payroll taxes payroll	2,768	-	2,768
Subtotal	19,212	20,983	40,195
<u>With the public:</u>			
Accrued funded payroll and benefits	\$ 20,215	-	20,215
Foreign national separation pay	16,095	-	16,095
Accrued unfunded annual leave	40,283	-	40,283
Capital lease liability	2,570	-	2,570
Subtotal	79,163	-	79,163
Total as of Sept. 30, 2007	\$ 98,375	\$ 20,983	\$ 119,358

	<u>Current</u> <u>Liabilities</u>	<u>Non-Current</u> <u>Liabilities</u>	<u>Total</u>
<u>Other liabilities</u>			
<u>Intragovernmental:</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
<u>With the public:</u>			
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 Sept. 30, 2006	\$ 93,017	\$ 21,400	\$ 114,417

DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - NET POSITION

The following table summarizes the net position by fund type as of Sept. 30, 2007, and 2006:

	<u>General</u> <u>Fund</u>	<u>Working Capital</u> <u>Fund</u>	<u>Total</u>
Net position:			
Unexpended appropriations	\$ 11,622	\$ 30,023	\$ 41,645
Cumulative results of operations - earmarked funds	1,000,569	-	1,000,569
Cumulative results of operations - other funds	-	(44,959)	(44,959)
Total cumulative results of operations	1,000,569	(44,959)	955,610
Total as of Sept. 30, 2007	\$ 1,012,191	\$ (14,936)	\$ 997,255
Net position:			
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 Sept. 30, 2006	\$ 991,741	\$ (29,872)	\$ 961,869

DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - EARMARKED FUND

The following table presents condensed data relating to DeCA's earmarked fund, the Surcharge Collections Trust Fund, as of and for the year ended Sept. 30, 2007, and 2006:

Balance Sheet	2007	2006
Assets		
Fund balance with Treasury	\$ 317,346	\$ 306,813
Cash and accounts receivable	7,484	5,071
Property, plant and equipment	752,262	729,155
Total assets	\$ 1,077,092	\$ 1,041,039
Liabilities		
Accounts payable	\$ 44,208	21,192
Environmental liabilities	32,315	29,040
Total liabilities	76,523	50,232
Cumulative results of operations	\$ 1,000,569	990,807
Total liabilities and net position	\$ 1,077,092	\$ 1,041,039
Statement of Net Cost		
Program costs	\$ 279,983	\$ 261,781
Less: earned revenue	(284,620)	(318,930)
Net income from operations	\$ (4,637)	\$ (57,149)

