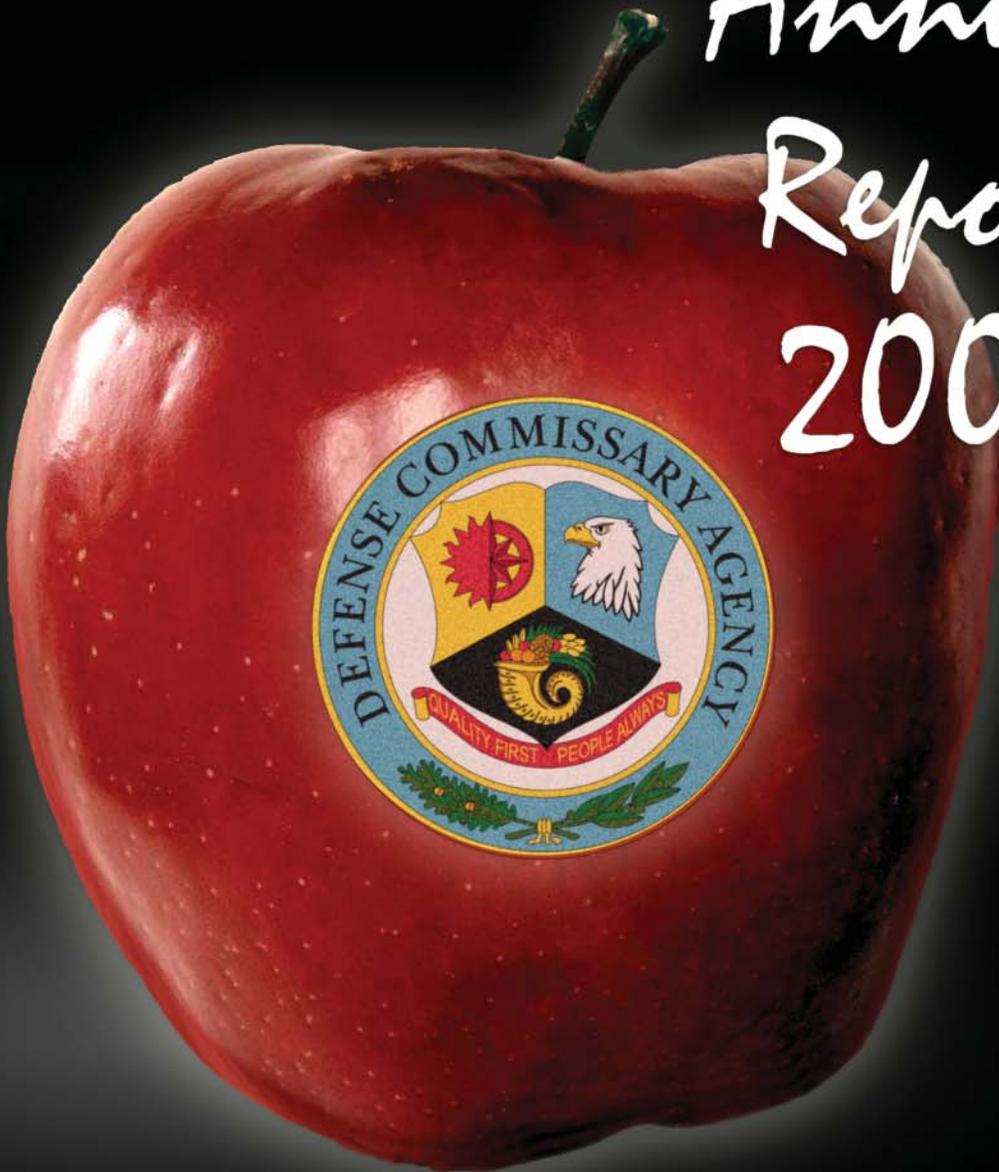


Defense
Commissary
Agency

Annual
Report
2008



From the director ...

SINCE ARRIVING at the Defense Commissary Agency last June, I have been extremely pleased with the agency's performance — both as a business, effectively delivering the commissary benefit to all who have proudly served our country, past and present; and as an efficient, innovative government entity.

In these trying economic times, the benefit provides more value than ever. More and more service members are taking advantage of their benefit to help relieve their financial stress. DeCA continues to outperform many government organizations, and in many areas has been

hailed as a model government agency.

These accomplishments are due in large measure to the dedication and skill of the nearly 18,000 employees who operate the commissary system. I was proud to be chosen to lead what can only be described as one of the military's most desired benefits.

DeCA's past performance has been stellar and I can only hope to lead it to new heights as we continue to demonstrate to our patrons that "The Commissary — It's Worth the Trip!"



PHILIP E. SAKOWITZ JR.



DeCA-at-a-Glance ...



<i>Established:</i>	Oct. 1, 1991
<i>Headquarters:</i>	1300 E Street, Fort Lee VA 23801 www.commissaries.com
<i>Fiscal 2008 operations costs:</i>	\$1.3 billion
<i>Fiscal 2008 sales:</i>	\$5.8 billion
<i>Total employees:</i>	Nearly 18,000
<i>Global presence:</i>	13 countries, 2 U.S. territories
<i>Commissaries:</i> <i>(as of Dec. 31, 2008)</i>	254
<i>Customers:</i>	Nearly 12 million



STOREWORKER BRYAN BOATNER, BAUMHOLDER COMMISSARY, GERMANY
DECA PHOTO: GERRI YOUNG

Who we are ...

COMMISSARY SHOPPERS in 1867 surely appreciated the new concept of purchasing at-cost groceries, even from a Spartan, 82-item stock list. Army soldiers headed to a post's designated warehouse to stock up on necessities of the day, ranging from sperm whale candles and loaves of sugar, to beef tongues and pickled cucumbers.

Who would have dreamed that from such humble beginnings would come today's treasured benefit? Established by Congress more than 140 years ago, commissaries remain an integral part of the military compensation package.

Oct. 1, 1991, marked the establishment of the Defense Commissary Agency, with headquarters at Fort Lee, Va. DeCA consolidated individual commissary systems from four branches of military service. This provided better service to military customers at lower cost — always DeCA's most fundamental goal.

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, affordable access to American products.

The agency operates more than 250 stores worldwide, from Cairo, Egypt, to Columbus, Ga., to Kunsan, South Korea. Overseas stores receive goods via DeCA's 10 central distribution centers in Europe, the Pacific and Alaska, and a central meat processing plant in Germany.

For DeCA team members, dedication and respect for the customer, and responsible fiscal stewardship to the American taxpayer, inspire a quest for continuous process improvement that has helped provide greater savings and service than at any other time in history — while at the same time controlling cost.

As a component of the Department of Defense, the agency reports to the undersecretary of defense for personnel and readiness. The DeCA Board of Directors — a distinguished panel of senior officers, civilian representatives and department secretariats from each military service — provides oversight.



Who we serve ...



THE DEFENSE Commissary Agency exists solely to provide a benefit. Customers purchase items at cost plus a 5-percent surcharge, which goes toward 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 nearly 12 million. This includes:

- ▷ Active and retired members of the uniformed services including the Coast Guard;
- ▷ Members of the Reserve and National Guard;
- ▷ Noncommissioned ship officers and crews of vessels of the National Oceanic and Atmospheric Administration;
- ▷ Commissioned officers of the U.S. Public Health Service;
- ▷ Family members, widows or widowers, 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.



SGT. KIMBERLY EPPS, RICHARDS-GEBAUR COMMISSARY, MO.
DECA PHOTO: RICK BRINK



PRODUCE MANAGER FLO AGUSTIN, BAUMHOLDER COMMISSARY, GERMANY.
DECA PHOTO: SKARLETT MUELLER

What we accomplished ...



THE AGENCY ACHIEVED another impressive fiscal year in 2008. Sales growth continued; the cost of delivering the commissary benefit came in under budget; and customer service and patron savings levels remained steady.

Sales. Annual sales topped \$5.8 billion, a 5-percent increase over 2007 sales. While some of that increase was attributable to the rise in the cost of goods, we estimate about half was actual sales growth. Equally significant, an additional 1.5 million shopper visits reflect an increased use of commissaries.

Savings. Customer savings remain the heart of the commissary benefit, and DeCA consistently delivers savings of 30 percent or more. For fiscal 2008, savings of 31.1 percent amount to nearly \$3,400 annually for a family of four, and \$1,200 for a single member. Attaining this level of savings would not be possible without the tremendous support of an extended team of industry partners — manufacturers, distributors and brokers.

Shopper satisfaction. Customers scored DeCA at 4.61, on a scale of one to five, on the Commissary Customer Satisfaction Survey. Also, the American Customer Satisfaction Index rated commissaries at 76, a score equal to the commercial supermarket industry.

Service. One of the most modern checkout systems in the grocery industry is now fully deployed for commissary shoppers around the world. The Commissary Advanced Resale Transaction System brought self-checkouts to stores for the first time, and features technology that meets DeCA's evolving needs.

Stewardship. DeCA's performance continues to reflect a commitment to maintaining accurate financial reports and overall fiscal responsibility:

- ▷ A seventh consecutive, unqualified opinion from independent auditors on agency financial statements
- ▷ Continue in top three in the Department of Defense for the internal controls program, and DeCA tested 473 key controls in fiscal 2008, most of which were found to be operating effectively with zero exceptions
- ▷ Earned an "A" for data accreditation and data security metrics on the Federal Information Security Management Act report
- ▷ Earned one of only 17 Ethics Program Awards from the U.S. Office of Government Ethics, recognizing DeCA's commitment to adhering to federal guidelines, policies and ethical standards in all business activities

As always, DeCA remains focused on customers and strives to exceed their expectations while delivering a "taste of home" to service members and their families around the world.



COMPUTER-ASSISTED ORDERING SPECIALIST JOHN ROPER, SAN DIEGO COMMISSARY, CALIF.
DECA PHOTO: NANCY O'NEILL

Value of the benefit ...



DeCA HAS FOUR strategic initiatives to increase the value of the benefit into 2009 and beyond:

- ▷ Focus on people and leadership development,
- ▷ Support the Guard and Reserve,
- ▷ Go “greener,” and
- ▷ Increase cooperation with military exchange stores.

Focus on people. Last fall, DeCA’s employee satisfaction survey revealed that the agency had not only improved in every category, it set a new Department of Defense benchmark score in customer orientation. The Organizational Assessment Survey, administered by the Office of Personnel Management, helps “take the temperature” of the workforce and its culture. The survey showed unprecedented improvement, averaging seven percentage points higher in every category compared to the agency’s 2005 baseline.

While the current state of the economy has slowed the departure of employees in the federal sector, we view this as a temporary reprieve, allowing additional time to attract, develop and retain high-performing employees. Our new 21st Century Leadership Development Program will provide a systematic

career progression path and professional certification to develop competencies, skills and flexibility within DeCA’s leadership and management cadre.

We continue to pursue individuals who have an investment in the military services and the commissary, such as wounded warriors, disabled veterans, military spouses and other family members. Since June 2008, we have hired 14 severely disabled persons and 70 compensable disabled veterans; family members make up 38 percent of DeCA’s workforce.

Support the Guard and Reserve. On-site sales deliver the benefit to members of the National Guard and Reserve living in areas without permanent commissary facilities. Making the benefit available to Guard and Reserve members is a top priority, and response from them has been overwhelming. In fiscal 2008, DeCA held 104 Guard and Reserve sales. More than 41,000 patrons bought \$4.4 million in commissary items. Calculating savings based on an average of 30 percent means these service members saved at least \$1.8 million on their purchases, which commonly fall in the category of family necessities. For many, it was their first encounter with the tremendous value the commissary benefit provides.

These sales have become an information source on other DoD benefits and programs as well. Participants often include health organizations; Morale, Welfare



AURORA "MYRNA" PASCUA, EL CENTRO COMMISSARY, CALIF.
DECA PHOTO: MARNITTA PAVAO



and Recreation activities; and the exchanges. The events often take on a county fair flavor as we strive to take care of our Guard and Reserve family.

Go greener. Since commissaries are so energy intensive, conservation remains a primary consideration in DeCA's criteria for the design of new stores and renovation of existing ones.

The agency constantly seeks new technologies and has adopted many cost-effective measures, such as fluorescent lighting that uses less energy. Last summer, the agency flipped the switch on its first solar-powered commissary at Los Angeles Air Force Base. Since "going solar," the sun powers about 30 percent of the energy used by the store's refrigeration systems.

DeCA also encourages earth-friendly practices through the promotion and sale of "green clean" products, compact fluorescent bulbs and reusable shopping bags. In little more than a year, commissary shoppers worldwide bought nearly 1.3 million bulbs and about 2.6 million reusable, cloth bags. The first bags were only 70 cents each and held 30 pounds of groceries, but customers now have options of larger and insulated bags for frozen or chilled items.

Increase cooperation with exchanges. The agency's best cooperative efforts with exchange systems, besides the joint construction plan, occur at store level where local commissary and

exchange managers hold joint sales events around the world. Other successful partnering efforts involve joint marketing and outreach programs.

DeCA continues to build on these cooperative efforts and seek joint solutions to explore and leverage sales opportunities that make business sense, provide value and savings to the patrons, and strengthen the overall military resale system.

Continue health and safety initiatives. Though not formally considered part of DeCA's four strategic focus areas, the agency stands proud of its role as nutritional leader for the armed forces.

The "It's Your Choice, Make It Healthy" campaign continues to provide health information and dietary guidance to customers, increasing awareness via print, broadcast and Internet venues. DeCA collaborates with various health, wellness, and food safety organizations to highlight not only healthy eating, but also food safety. The agency joined the Partnership for Food Safety Education and renewed customer focus on the core practices of "clean, separate, cook and chill" in the "Be Food Safe" program in 2008.

DeCA financials ...



STORE ASSOCIATE SAMANTHA FLOYD, ROBINS COMMISSARY, GA.
DECA PHOTO: RICK BRINK

**DEFENSE COMMISSARY AGENCY
CONSOLIDATED BALANCE SHEETS
AS OF SEPT. 30, 2008
(in thousands)**



Assets

Intragovernmental:	2008		2007
Fund balance with Treasury <i>(Note 2)</i>	\$ 601,104		\$ 618,158
Accounts receivable	27		242
Total intragovernmental assets	601,131		618,400
Cash	108,734		125,048
Accounts receivable and other, net	43,099		41,664
Inventory	386,401		341,905
General property, plant, and equipment, net <i>(Note 3)</i>	822,564		774,342
Total assets	\$ 1,961,929		\$ 1,901,359

Liabilities *(Note 4)*

Intragovernmental:			
Accounts payable	\$ 124,286		\$ 128,426
Other liabilities	41,130		40,195
Total intragovernmental liabilities	165,416		168,621
Accounts payable	476,126		466,135
Federal Employees Compensation Act actuarial liability	162,455		157,870
Environmental liabilities	31,266		32,315
Other liabilities	87,746		79,163
Total liabilities	\$ 923,009		\$ 904,104

Commitment and Contingencies *(Note 11)*

Net position *(Note 5)*

Unexpended appropriations	\$ 50,326		\$ 41,645
Cumulative results of operations – earmarked fund <i>(Note 9)</i>	1,027,424		1,000,569
Cumulative results of operations - other funds	(38,830)		(44,959)
Total cumulative results of operations	988,594		955,610
Total net position	\$ 1,038,920		\$ 997,255
Total liabilities and net position	\$ 1,961,929		\$ 1,901,359

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

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**

NOTE 2 - FUND BALANCE WITH TREASURY

FBWT consists of three types of funds – appropriated funds, revolving, and trust funds. Appropriated funds include the commissary operations, military construction and procurement, and Hurricane Katrina funds; the revolving fund relates to DeCA’s resale stocks fund; and the trust fund relates to the surcharge collections fund.

The following table shows the balance for each type of fund as of Sept. 30, 2008 and 2007:

Fund balances:		2008		2007
Appropriated funds	\$	284,111	\$	257,974
Revolving fund		28,114		42,838
Trust fund		288,879		317,346
Total	\$	601,104	\$	618,158

The following table shows status of fund balances as of September 30, 2008 and 2007:

Status of fund balances:	Appropriated	Revolving	Trust	Total
Unobligated balance available	\$ 18,316	\$ -	\$ -	\$ 18,316
Unobligated balance unavailable	5	-	-	5
Obligated balance not yet disbursed, net of contract authority	265,790	28,114	288,879	582,783
Total as of Sept. 30, 2008	\$ 284,111	\$ 28,114	\$ 288,879	\$ 601,104

Status of fund balances:	Appropriated	Revolving	Trust	Total
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	\$ 257,974	\$ 42,838	\$ 317,346	\$ 618,158



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.

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**



NOTE 3 - GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) at Sept. 30, 2008 and 2007 is summarized as follows:

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	\$ 1,920,959	\$ (1,280,894)	\$ 640,065
Software	32,501	(13,078)	19,423
Equipment	162,541	(66,909)	95,632
Assets under capital lease	4,396	(1,465)	2,931
Construction-in-progress	64,513	-	64,513
Total as of Sept. 30, 2008	\$ 2,184,910	\$ (1,362,346)	\$ 822,564

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	\$ 1,924,266	\$ (1,236,828)	\$ 687,438
Software	32,194	(9,252)	22,942
Equipment	171,650	(135,384)	36,266
Assets under capital lease	4,396	-	4,396
Construction-in-progress	23,300	-	23,300
Total as of Sept. 30, 2007	\$ 2,155,806	\$ (1,381,464)	\$ 774,342



CLOCKWISE FROM TOP LEFT: PRODUCE STOREWORKER LEADER LEONORA MARTINEZ, OROTE POINT, CALIF.; ZONE 24 MANAGER TROY COLLINS, FORT BELVOIR, VA.; AND SUPPLY SPECIALIST SEICHU HAYASHI, OKINAWA CDC. DECA PHOTOS

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**

NOTE 4 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of Sept. 30, 2008 and 2007:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Intragovernmental:			
Accounts payable	\$ 124,286	\$ -	\$ 124,286
Other liabilities	3,391	37,739	41,130
Subtotal	127,677	37,739	165,416
With the public:			
Accounts payable	476,126	-	476,126
Federal Employees Compensation			
Act actuarial liability	-	162,455	162,455
Environmental liability	-	31,266	31,266
Other liabilities	27,441	60,305	87,746
Subtotal	503,567	254,026	757,593
Total as of Sept. 30, 2008	\$ 631,244	\$ 291,765	\$ 923,009
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Intragovernmental:			
Accounts payable	\$ 128,426	\$ -	\$ 128,426
Other liabilities	2,768	37,427	40,195
Subtotal	131,194	37,427	168,621
With the public:			
Accounts payable	466,135	-	466,135
Federal Employees Compensation			
Act actuarial liability	-	157,870	157,870
Environmental liability	-	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

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**



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, 2008 and 2007:

Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
Workers compensation	\$ 16,203	\$ 21,536	\$ 37,739
Employer contributions and payroll taxes payroll	3,391	-	3,391
Subtotal	19,594	21,536	41,130
With the public:			
Accrued funded payroll and benefits	27,441	-	27,441
Foreign national separation pay	17,068	-	17,068
Accrued leave	41,869	-	41,869
Capital lease liability	-	1,368	1,368
Subtotal	86,378	1,368	87,746
Total as of Sept. 30, 2008	\$ 105,972	\$22,904	\$ 128,876
Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
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
With the public:			
Accrued funded payroll and benefits	20,215	-	20,215
Foreign national separation pay	16,095	-	16,095
Accrued 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

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**

NOTE 5 - NET POSITION

The following table summarizes the net position by fund type as of Sept. 30, 2008 and 2007:

	General Fund	Working Capital Fund	Total
Net position:			
Unexpended appropriations	\$ 11,358	\$ 38,968	\$ 50,326
Cumulative results of operations – earmarked fund	1,027,424	-	1,027,424
Cumulative results of operations – other funds	-	(38,830)	(38,830)
Total cumulative results of operations	1,027,424	(38,830)	988,594
Total as of Sept. 30, 2008	\$ 1,038,782	\$ 138	\$ 1,038,920

	General Fund	Working Capital Fund	Total
Net position:			
Unexpended appropriations	\$ 11,622	\$ 30,023	\$ 41,645
Cumulative results of operations – earmarked fund	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



Our 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!

**DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEARS ENDED SEPT. 30, 2008 AND 2007**



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 years ended Sept. 30, 2008 and 2007.

Balance Sheet	2008	2007
Assets		
Fund balance with Treasury	\$ 288,879	\$ 317,346
Cash and accounts receivable	5,882	7,484
Property, plant, and equipment, net	799,122	752,262
Total assets	\$ 1,093,883	\$ 1,077,092
Liabilities		
Accounts payable	\$ 35,193	\$ 44,208
Environmental liabilities	31,266	32,315
Total liabilities	66,459	76,523
Cumulative results of operations	1,027,424	1,000,569
Total liabilities and net position	\$ 1,093,883	\$ 1,077,092
Statement of Net Cost		
Program costs	\$ 267,831	\$ 279,983
Less: earned revenue	(295,872)	(284,620)
Net income from operations	\$ (28,041)	\$ (4,637)

NOTE 11 – CONTINGENCIES

DeCA is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. DeCA has not accrued any amounts for contingent liabilities as the potential losses have not been determined to be probable and/or amounts cannot be estimated. The amounts claimed related to the significant cases total approximately \$27.8 million as of Sept. 30, 2008.



Our vision ...

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

MEAT MANAGER WALTER FORD, DAHLGREN COMMISSARY, VA. DECA PHOTO: ROBERTO CRUZ

COVER DESIGN: MIKE CERNY