

VOLUME 3, CHAPTER 19: “WORKING CAPITAL FUNDS”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated December 1996 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
190201	Clarified language used in previous version	Update
190202	Clarified language used in previous version	Update
190203	Updated and provided form names and examples	Update
190204	Clarified language used in previous version	Update
190205	Clarified that fixed type assets do not provide budget authority	Update
190206	Defined Contract Authority	Update
190207	Clarified language used in previous version	Update
190301	Updated and provided form names and examples	Update
190302	Added Contract Authority and defined Variability Target	Revised
190303	Clarified language used in previous version	Update
190304	Clarified the use of the SF 133	Revised
190305	Added section on the AR 1307 and the reconciliation of budget authority	Revised
190306	Clarified language used in previous version	Update
190307	Clarified language used in previous version	Update

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CHAPTER 19

WORKING CAPITAL FUNDS

1901 GENERAL PROVISIONS

This chapter provides the policies and procedures to guide budget execution for working capital funds.

1902 BACKGROUND

190201. Policy

This guidance is applicable to all DoD working capital funds

190202. Working Capital Funds

Direct Appropriations (e.g. Procurement and O&M) are required to start, increase the size, or replace significant losses to a working capital fund. In addition, existing resources in other accounts may be transferred to a working capital fund as capitalized assets to serve these same purposes in lieu of an appropriation. The resources used to establish or increase the size of a working capital fund are commonly referred to as “the corpus (total investment) of the revolving fund.” This is not by definition the same as the “cash corpus” financial metric. The “cash corpus” is defined as the requirement to maintain seven to ten business days of cash plus an additional six months of disbursements for the Capital Investment Program (CIP). The corpus (or total investment) forms the nucleus of resources used to acquire the items needed to perform the mission of the working capital fund.

190203. Budgetary Authority for Working Capital Fund

Revenues are generated in DoD revolving funds mostly from appropriated funds used by federal agencies, to purchase goods or services provided by the specific fund. The revenue collected from these “customers” is used to pay for the acquisition of resources needed to ensure the continuous operation of the various working capital fund activities. In other words, in exchange for goods and services, resources from the initial/additional investment are expended and subsequently are reimbursed from funded customer orders. For any working capital fund that is apportioned by the OMB, the ability to incur obligations is limited to the amount of authority approved for obligation during the budget review and amended by unanticipated events during execution. The SF 132, “Apportionment and Reapportionment Schedule,” is required to be submitted to the OMB for the approval of obligation authority needed for the operation of a working capital fund. Budgetary resources available for apportionment action include:

- A. New budget authority (direct appropriations).
- B. Available unobligated balances at the beginning of the fiscal period (e.g. unfilled customer orders).

C. Reimbursements for goods and services provided and/or other income (also known as offsetting collections credited to the working capital fund account).

D. Recoveries of prior year obligations.

E. Restorations.

F. Anticipated contract authority.

190204. Obligation in Excess of Orders Received

For Non-supply management activity groups the apportionment of anticipated reimbursements as obligation authority does not authorize these activity groups to obligate in excess of the orders received from within the Federal Government and advances received for orders outside the Federal Government. Orders from state, local, and foreign governments are considered to be orders from the public.

*190205. Budgetary Resources Used in Calculating Unobligated Balances

Assets such as inventories or of a fixed asset nature (buildings and equipment), are not considered a budgetary resource because they do not provide a direct monetary source to liquidate financial transactions. Such assets, therefore, do not increase the amount of obligation authority available when calculating unobligated balances. Unobligated balances are the offset of budgetary resources with claims against budgetary resources (Accounts Payable and Undelivered Orders). In other words, the available budgetary resources for obligation is equal to the difference between budgetary resources less any claims against these budgetary resources. Obligations for the procurement of inventories, as well as for the acquisition of other working capital fund assets, must be recognized, recorded, and reported along with other obligations.

*190206. Contract Authority

Contract authority is the legal ability to enter into contracts and incur obligations *before* budgetary authority is available to make outlays to liquidate those obligations. With respect to Working Capital Fund budget execution, contract authority is mainly used in supply management and capital investment programs. Contract authority must be apportioned even if total budgetary resources are available to offset the amount required. When budgetary resources exceed contract authority, the difference cannot be obligated unless it is apportioned. This may be characterized as either an unapportioned balance of a revolving fund or a restrictive withholding. The concept of an unapportioned balance is one of preserving a portion of the fund's capital (cash corpus requirement) so it may continue to revolve or represents those resources not scheduled for obligation within a fiscal year.

190207. Reporting Antideficiency Act Violations

The incurring of obligations or authorizing the incurrence of obligations in excess of apportioned contract authority and/or budgetary resources must be reported as an apparent

violation of the Antideficiency Act, as required by DoD Directive 7200.1. This reporting requirement applies whether or not a working capital fund has unapportioned budgetary resources or nonbudgetary assets (e.g. inventory) greater than the amount of the deficiency.

1903 EXECUTION REQUIREMENTS

190301. Apportionment

The OMB apportions to the USD(C) the Working Capital Funds appropriation, [budgetary and contract authority](#) for the current fiscal year by means of a [SF 132](#) as shown later in the chapter. The [SF 132](#) is prepared by the Revolving Funds Directorate, reviewed by the Deputy Comptroller (Program/Budget), and submitted to the OMB for approval. Contract authority on the [SF 132](#) is the legal authority to obligate funds in anticipation of receipt of customer orders. [Contract authority](#) is provided for Supply-type business area operations (e.g. Supply Management, Distribution Depots, the Defense Reutilization and Marketing Service, and DeCA Resale Operations), and the capital [investment](#) purchase authority of all business areas. [Details and explanations on preparing the SF 132 can be found in OMB Circular A-11 Preparation, Submission and Execution of the Budget, Section 121.](#)

190302. Contract Authority

The initial apportionment of contract authority for a year normally is based on the operating and capital budget (obligation) estimates for each Supply-type business area and the Working Capital Funds appropriation request reflected in the budget year column of last year's President's budget (the Program and Financing statement). Contract authority is also requested and provided for Supply Management activities as a Variability Target. The Variability Target represents an amount of contract authority to be held in reserve by the Revolving funds Directorate to ensure continuity of operations for fluctuations in customer orders due to contingency operations. Requested adjustments to the initial apportionment are provided to OMB in February/March reflecting revised estimates displayed in the current year column of the President's budget submission that was just provided to Congress. Other adjustments can be requested at subsequent times during the fiscal year reflecting significant changes experienced in budget execution.

190303. Annual Operating Budget.

The Revolving Funds Directorate issues initial Annual Operating Budgets (AOBs) for each Component's [activity group within a specific working capital fund](#), prior to the beginning of the fiscal year. A sample is shown later in this chapter. The AOB identifies an operating budget, operating results, unit cost(s) targets and capital budget limitation (subject to 31 U.S.C. 1517) for each business area.

A. [Cash is centrally managed by the Army, Navy, Air Force, Defense Commissary Agency, and the Defense Logistics Agency.](#) Each is responsible for taking actions that enable their [fund](#) to maintain a positive balance in order to [remain solvent](#) and allow

operations (disbursements) to continue. It is a violation of the Antideficiency Act if a fund's cash goes below zero at the close of the monthly reporting period.

B. Unless approved by OUSD (C), Non-supply management activities shall maintain a positive budgetary resource balance (e.g. obligations do not exceed resources comprised of any appropriation, customer orders, unobligated balances carried forward from a previous period, current or prior year transfers of balances from other accounts, current year unobligated balances, and recoveries from the de-obligation of prior year obligations). Additionally, AOBs for supply management activities and capital investment programs display the level of OMB-apportioned contract authority and may be delineated specifically on applicable AOBs that provide authority for which budgetary resources are not required.

*190304. Budgetary Resources

The reconciliation of budgetary resources is reported to working capital fund activities by the Defense Finance and Accounting Service monthly on the SF 133 Report on Budget Execution and Budgetary Resources. Although Contract Authority is not a budgetary resource, it still is reported on the SF 133 to ensure obligations do not exceed apportioned amounts from OMB. Details on the preparation and explanation of the SF 133 can be found in OMB Circular A-11 Preparation, Submission and Execution of the Budget, Section 130.

A. Obligations should not be authorized or incurred in a working capital fund business area unless available resources, the sum of lines 9.A.1., 9.B., and 9.C. of the SF 133 exceed the proposed obligation or accrued expense. Obligating funds or incurring an accrued expense that results in the business area account being over apportioned amounts can result in a violation of the Antideficiency Act for the fund manager. Such violations are reportable to the President and the Congress, and can involve criminal prosecution for the responsible person or people.

B. Clarifications of the categories used on the SF 133 and how they pertain to working capital fund activities are detailed as follows:

Line 1A. Unobligated balance brought forward. For industrial and service related activities this total should represent the amount of work still required to be performed against outstanding customer orders. It may also include the amount of Contract Authority approved to be brought forward from prior year capital budgets. For supply related activities, this amount should only represent the amount of capital budget contract authority allowed to be brought forward. Unobligated Contract Authority will be cancelled at the end of the fiscal year.

Line 2A. Recoveries of prior year obligations actual. The actual amounts of prior year obligations should be reported on this line and not included in Line 8, Obligations Incurred. If current year recoveries can not be separated from prior year recoveries, then the total amount of recoveries should be reported on Line 2A and not included in Line 8.

Line 3A. Budget Authority. For industrial and service activities, budget authority is the sum of planned customer new orders, contract authority for the capital budget and any direct appropriations received by that activity. For supply activities, it represents the sum of contract authority apportioned, the amount of obligation authority earned, and any direct appropriations received. However, for clarification, Line 3 is not the net budget authority approved for supply activities. This amount has to be offset by the amount of contract authority no longer available by the amount of obligation authority earned by collections (Line 6D). The net amount of budget authority for supply activities is reflected on Line 7.

Report of Budget Execution and Budgetary Resources-Supplemental. This section provides information that can be used to calculate the Unrealized Budgetary Position (UBP) of pending transactions. Unrealized budgetary resources are accounts receivable and unfilled customer orders because they represent future collections to a working capital fund. Unrealized budgetary claims are accounts payable and undelivered orders because they represent future disbursements. For industrial and service type activities, the sum of these categories should be negative thereby indicating that there are sufficient resources available to cover future pending transactions. For industrial and service type activities, the UBP is an indicator of the amount of work needed to complete accepted customer orders. Conversely, supply type activities should typically have a positive balance given that contract authority allows for the obligation of resources in advance of available funding. For supply type activities, the UBP indicates the amount of future customer orders and/or appropriated funding required to liquidate future potential transactions.

Accumulated Solvency Position. Subtracting the cash balance with treasury from the UBP will result in an Accumulated Solvency Position (ASP). The ASP represents a long term position whereas the UBP represents current operations. Again, this number is typically negative for industrial/service activities and positive for supply activities.

*190305. DFAS Reporting

The DFAS Accounting Report (AR) 1307 is the main source and official document for budget execution. The following are clarifications on how the 1307 relates to the reconciliation of budgetary authority.

Statement of Financial Position and Statement of Cash Flows. All amounts depicted on these statements that are also displayed on the SF 133 should reconcile. Amounts that do not reconcile should be explained in the accompanying footnotes.

Statement of Operations. The accounting term “expense” is not synonymous with the budgetary term “obligation.” Obligations are typically higher than expenses because an obligation should be incurred before the accrual of an expense. The term “cost” may refer to either an obligation or expense depending on the circumstances. To clarify, an “obligation” is an unrealized cost whereas an “expense” is a realized cost. The reconciliation of budgetary resources relies upon the recognition of obligations as “costs” to ensure that budgetary resources are in place to cover any potential realized costs.

A. Cost of Goods Sold (COGS). The AR 1307 COGS do not represent the total amount of obligations incurred for the purchase of inventory. Furthermore, the 1307 adjusts the value of inventory based upon holding gains and losses that do not affect budgetary resources. Therefore, the amount of budgetary resources required to purchase inventory and produce goods and services may be a separate and distinct value than the accounting COGS.

B. Depreciation. The accounting purpose for depreciation is to recognized costs incurred as an asset is consumed over its useful life. It is based upon the purchase price of the asset and the length of the item's useful life. For budgetary purposes, depreciable assets are purchased with contract authority in advance of appropriated funding. Depreciation, for budgetary purposes, is used for the collection of budgetary resources to offset the contract authority used to purchase the item. This recovery period may be shorter than the useful life of the item depending on the budgetary resources required by an activity.

C. Net Operating Result (NOR)/Accumulated Operating Results (AOR). The NOR/AOR for budgetary purposes may also be different than the AR 1307 NOR/AOR. It is up to the fund manager to develop a methodology that is representative of the budgetary NOR/AOR. This methodology is typically reviewed during quarterly execution reviews with OUSD (C) Revolving Funds and the Budget Estimate Submission (BES). The fund manager may use the AR 1307 NOR/AOR if they feel it is representative of the fund's budgetary position.

Part VII Inventory Management Report. For supply activities, the Part VII of the AR 1307 provides budgetary, accounting and inventory data that can be used for the development of internal benchmarks and metrics that indicate the operational effectiveness and efficiency of the activity. Fund managers should coordinate with OUSD (C) Revolving Funds for clarification on what should be displayed on quarterly execution briefings. All amounts depicted on the Part VII that are also displayed elsewhere on the AR 1307 or SF 133 should reconcile.

190306. Execution Review

The Revolving Funds Directorate receives from each working capital fund activity group a quarterly execution briefing and a Fund-28 Execution Performance Quarterly Analysis (see Vol 2B, Chapter 9). Each activity group's results of operations (through the latest available accounting period) are formally reviewed by OUSD (C) leadership to determine the actual results of operation in comparison with plans for disbursements, collections, revenue, expense, net operating results, and unit costs. Typically these briefings occur in February, May, and August. The purpose of the review is to determine if financial operations are proceeding according to plan and if there are significant deviations from the plan to actual execution. Management actions may be required to either bring execution back into line with the plan or to revise the plan to be consistent with current and more realistic financial expectations.

190307. Adjusting Components Resources

Based on budget execution, Components periodically request the Revolving Funds Directorate to adjust their targets and/or capital budget limitation. Unless the Congress has

provided a capital purchase limitation or other direction that would preclude making a requested adjustment, a Component's request will be evaluated and approved or disapproved and reflected in a revised AOB based on the merit of the justification provided.

Expanded Apportionment Format 132

*SF 132

Line No		Line Split	Bureau/ Account Title / Cat B Stub / Line Split	Previous Approved	Per-Approved Footnote	Agency Request	Agency Footnote	OMB Action	OMB Footnote	Memo Obligations
<p>The system hides columns A - F when you validate a file, but each row contains the proper TAFS. If you add rows or change the TAFS, you must update these columns.</p> <p style="text-align: center;">Expanded Apportionment Format (SF 132)</p> <p style="text-align: center;">FY 2009 Apportionment Funds provided by Public Law 110-99</p> <p style="text-align: right;">Identify in the header the row(s) providing the budget authority.</p>										
<p>Department of Government Bureau: Office of the Secretary Account: Salaries and Expenses (003-04-1109) TAFS: 80-0137/2009</p>										
BEA	DISC	NO	BEA Category							
RpICat	NO		Reporting Categories							
AdjAuth	NO		Adjustment Authority provided							
<p>BUDGETARY RESOURCES</p> <p>Unobligated balance:</p>										
1A			Unob Bal: Brought forward, October 1 (+ or -)							
1B			Unob Bal: Adjustment to SOY balance brought forward, October 1 (+ or -)							
<p>Recoveries of prior year unpaid obligations:</p>										
2A			Recoveries of prior year unpaid obligations, Actual							
2B			Recoveries of prior year unpaid obligations, Anticipated							
<p>Budget authority's Appropriation:</p>										
3A1			BA: Appropriation, Actual			7,400,000		7,400,000		
3A2			BA: Appropriation, Anticipated							
3B			BA: Borrowing authority							
3C			BA: Contract authority							
<p>Budget authority's Spending authority from offsetting collections (gross):</p>										
<p>Earned:</p>										
3D1A			BA: Offsetting Collections - Earned, Collected							
3D1B			BA: Offsetting Collections - Earned, Change in receivables from Fed sources							
<p>Change in unfilled customer orders (+ or -):</p>										
3D2A			BA: Change in unfilled customer orders - Advance received							
3D2B			BA: Change in unfilled customer orders - Without advance from Fed sources							
3D3			BA: Offsetting collections - Anticipated, without advance			403,000		403,000		
3D4			BA: Offsetting Collections - Previously unavailable							
<p>Expenditure transfers from trust funds:</p>										
3D5A			BA: Expenditure transfers from trust funds - Collected							
3D5B			BA: Expenditure transfers from trust funds - Change in receivables							
3D5C			BA: Expenditure transfers from trust funds - Anticipated							
<p>Nonexpenditure transfers, net:</p>										
4A			Nonexpenditure transfers, net: Actual transfers, BA							
4B			Nonexpenditure transfers, net: Anticipated transfers, BA							
4C			Nonexpenditure transfers, net: Actual transfers, mob balances							
4D			Nonexpenditure transfers, net: Anticipated transfers, mob balances							
5	A		Temporarily not available pursuant to Public Law ____ (-)			-1,000		-1,000		
<p>Permanently not available:</p>										
6A			Permanently not available: Cancellations of expired or no-year accounts (-)							
6B			Permanently not available: Enacted reductions (-)							
6C			Permanently not available: Capital transfer and redemption of debt (-)							
6D			Permanently not available: Other authority withdrawn (-)							
6E			Permanently not available: Pursuant to Public Law ____ (-)							
6F			Permanently not available: Anticipated for rest of year (-)							
7			Total budgetary resources	0		7,802,000		7,802,000		
<p>APPLICATION OF BUDGETARY RESOURCES</p>										
<p>Apportioned:</p>										
8A1			First quarter			1,952,000		1,952,000		
8A2			Second quarter			1,950,000		1,950,000		
8A3			Third quarter			1,950,000		1,950,000		
8A4			Fourth quarter			1,950,000		1,950,000		
8B1			Prattie Restoration Fund				A1		A1	
8C			Apportioned for future fiscal years							
9			Budgetary Resources: Withheld pending rescission (pursuant to 2 U.S.C. 683)							
10			Budgetary Resources: Deferred							
11			Budgetary Resources: Unapportioned balance of revolving fund							
12			Total budgetary resources	0		7,802,000		7,802,000		
<p>Submitted _____ Date _____</p> <p>Approved _____ Date _____</p>										

Display the text of any footnotes in a separate tab in your Excel file.

Navy Working Capital Fund

*Annual Operating Budget

NAVY WORKING CAPITAL FUND			
NAVY SUPPLY MANAGEMENT			
FISCAL YEAR <u>2007</u> COST AUTHORITY			
ACTIVITY GROUP Output Measure	OPERATING BUDGET		
	Unit Cost \$	Number of Units (Millions)	Total Cost Approved (\$ in Millions)
Operating Budget			
Gross Wholesale Cost Per Dollar of Sales	0.959	4,312.998	4,136.214
Gross Retail Cost Per Dollar of Sales	1.003	876.120	879.021
Direct Reimbursables/Other: <u>1/</u>			
Centrally Managed Program			106.838
Naval Supply Information Systems Activity (NAVSISA)			29.783
Real Property Maintenance			19.515
Military Personnel			27.537
Negative Unliquidated Obligation/Unmatched Disbursement (NULO/UMD)			35.900
Reimbursables			478.056
Inventory Augmentation <u>11/</u>		83.465	0.000
Supplemental Appropriation <u>13/</u>		0.000	0.000
Total Operating Cost			5,712.864
Less Credit Returns			91.711
Total Operating Obligation Authority <u>2/</u>			5,621.153
CAPITAL OBLIGATION AUTHORITY <u>2/</u>			
FY 2006			0.000
FY 2007			13.856
TOTAL			13.856
GOALS:			
Net Operating Result (NOR)			-48.7
Accumulated Operating Result (AOR) <u>3/</u>			-3.8
Authorization Number	Date	Approved	
NSUP-07-05			

LIMITATIONS AND GUIDANCE:

1. For Supply Management Activity Groups, costs include all obligations recorded as reported on the SF 133 (sum of lines 8A and 8B), plus all approved costs for depreciation, and actual credit returns. For all other Budget Activity Groups, costs include those reported on part 1 line 10 of the AR 1307 Accounting Report. Cost authority equals the actual cost incurred up to the limit of obligation authority received on funded customer orders for Direct Reimbursable/Other Outputs.

2. The sum of amounts listed in the Total Cost Column for Obligation Authority for both Operating and Capital (the sum of lines 8A and 8B on the SF 133, Report on Budget Execution), plus the amount of Actual Recoveries of Prior Year Obligations (Line 4A, SF 133) represents a limit on total obligations to be incurred during the current fiscal year and is subject to the provisions of Section 1517 of 31 U.S.C., the Anti-Deficiency Act. The sum of the amounts listed in the Total Cost Column for the Capital Obligation Authority, as reported in Part VI of the AR 1307, also represents a separate limitation subject to the provisions of Section 1517 of 31 U.S.C., the Anti-Deficiency Act. Obligations are not to be incurred beyond the total approved amount shown for each year for the Capital Budget (as modified by within scope adjustments identified below in the capital program section and reprogramming authority provided in DoD 7000.14-R, DoD Financial Management Regulation, Volume 2B, Chapter 9) without the specific prior approval of this office. Other than the Military Construction appropriations, no other funds are available for Capital Obligations except as provided in this document.

3. AOR and NOR: AOR represents the cumulative impact of gains and losses on total operations of the activity group since the inception of the fund. The stated financial goal of the Working Capital Fund is to achieve a zero AOR over time. Customer rates are set to achieve this result. The AOR, along with the NOR, provide primary financial management targets and will be used in conjunction with other performance metrics to assess the overall operational effectiveness of the Activity Group, as identified and reported monthly on the AR 1307 Report. For each activity group, the Component is responsible for preparing a monthly Revenue and Cost Plan. Formal First Quarter and Mid-Year Joint Execution Reviews of this plan will be conducted by this office in February and May 2007.

4. CASH MANAGEMENT: Cash management remains the responsibility of the Navy. This cash management responsibility for Navy entails taking action to maintain a positive cash balance for Navy Activity Groups, in total, at all times. Failure to maintain this minimum balance level will result in a statutory violation of Section 1517, of 31 U.S.C., the Anti-Deficiency Act, by the Navy. The Navy may require DFAS to vary its billing cycle or advance bill, when it is deemed necessary to do so, in order to maintain cash solvency. The magnitude, duration, and reason for advance billing by business area must be reported to the Director of Revolving Funds within 15 calendar days of the end of the month in which the advance billing took place. In exercising the authority to advance bill orders, the Department of Navy must ensure that, in total, for all Activity Groups, advance billing for services provided or work performed by the Department of Navy's Working Capital Funds activities in excess of \$200

million, cumulative, is prohibited during fiscal year 2007. The Component remains responsible for compliance with monthly execution of collections and disbursements in accordance with the monthly approved plan.

5. **UNIT COST:** The total cost for those outputs identified by a unit cost is predicated on a projected level of workload. Components may request increases in Cost Authority based on an increase in the number or value of orders accepted. Conversely, if actual workload declines below levels anticipated, appropriate reductions will be made to the total costs shown in this document.

6. **PERFORMANCE GOALS:** Descriptions of performance effectiveness measures are identified in the FY 2008 President's Budget Submission.

<u>Measure</u>	<u>Goal</u>
NOR/AOR	See Page 1
Ship Operating Time with C3/C4 CASREPS	
<i>Deployed</i>	25.0%
<i>Non-deployed</i>	24.0%
Aircraft Not Mission Capable Supply	
<i>Deployed</i>	10.0%
<i>Non-deployed</i>	10.0%
Supply Material Availability (7 COG)	85%
Customer Wait Time	12.0 days

7. **OTHER:**

a. Base Realignment and Closure Program expenses may be incurred prior to receiving an allocation of BRAC funding. However, all costs incurred by DWCF activities to carry out BRAC must be reimbursed from the BRAC account prior to the end of the fiscal year in which costs were incurred. DWCF funds may not be expended prior to complying with the notification requirements imposed by law with respect to the obligation of BRAC funds.

b. Included in the total operating cost authority in this document is \$29.201 million in anticipated depreciation expense.

c. Costs for civilian separation incentives, not related to BRAC, are to be financed by the Navy Working Capital Fund.

8. **CUSTOMER ORDERS:** The total value of anticipated reimbursable customer orders during this fiscal year is \$5,702.404 million.

9. **CONTRACT AUTHORITY FOR CAPITAL PURCHASES:** This document provides the authority for Navy Supply Management to invoke apportioned contract authority during FY 2007 up to a maximum of \$13.856 million to support capital purchase program-

related requirements. Unused (unobligated) contract authority is withdrawn at the end of the year and there is no carryover of unobligated balances.

10. **CONTRACT AUTHORITY FOR OPERATING EXPENSES:** This document provides the authority for Navy Supply Management to invoke apportioned contract authority during FY 2007 up to maximum of \$5,621.153 million to support operating budget program-related requirements. Apportioned authority is reduced by the portion of budgetary resources from other than depreciation charges or capital surcharges provided through the receipt and acceptance of funded customer orders. Unused (unobligated) contract authority is withdrawn at the end of the year and there is no carryover of unobligated balances.

11. **INVENTORY AUGMENTATION:** Navy Supply Management is provided a direct DWCF appropriation of \$83.465 million to finance the costs of spares augmentation deliveries in FY 2007. This document provides the authority for Navy Supply Management to invoke contract authority during FY 2007 up to a maximum of \$0.0 to support additional inventory augmentation purchases. This authority is only available if the funding to support these purchases will be reimbursed from DWCF appropriations budgeted in the years of expected procurement delivery. This contract authority is included in the total contract authority authorized for operating expenses in Footnote 10 above.

12. **CONGRESSIONAL DIRECTION:** Funding released in this and subsequent documents is to be executed only in accordance with all applicable provisions of the John Warner National Defense Authorization Act for Fiscal Year 2007 (P.L. 109-364), the Department of Defense Appropriations Act, 2007 (P.L. 109-289), and any supplemental appropriations, when enacted.

13. **DIRECT APPROPRIATIONS (including supplementals):** The Navy Working Capital Fund is not provided any direct appropriations in FY 2007 to finance Navy Supply operating costs.

14. **DEFENSE BUSINESS SYSTEM MODERNIZATION:** In accordance with the Ronald W. Reagan National Defense Authorization Act for FY 2005 and Department of Defense policy, modernization and enhancement to a system that cost more than \$1 million must be approved by the Investment Review Board and Defense Business Systems Management Committee prior to obligating funds. This does not include any obligations to maintain current services.

15. **STATUTORY AUTHORITY:** Additionally, you are reminded that statutory authority, such as one of the exceptions set out in the Competition in Contracting Act (10 U.S.C. 2304), is required for the Department of Defense to use other than full and open competition when awarding contracts for goods or services. Similarly, express statutory authority is required for the Department to award grants or enter into cooperative agreements.

CAPITAL BUDGET PROGRAM

1. The capital budget is to be executed based on the approved annual programs contained in the President's Budget as modified by approved budget decisions. Deviations from the President's Budget, that are consistent with approved reprogramming criteria, must be identified to the Director for Revolving Funds during the scheduled execution reviews.

2. The capital budget will be executed in accordance with the Financial Management Regulation. Effective April 4, 2007, The Defense Working Capital Funds Capital Purchases Program (CPP) budget expense/investment threshold (FMR Volume 2B, Chapter 9) was raised from \$100,000 to \$250,000 for all categories except Minor Construction. The Minor Construction threshold remains at \$100,000. The capital budget authority shown in paragraph 9 of this document reflects this change. While the budgetary capitalization threshold was raised, assets between \$100,000 and \$250,000 will still be recorded in the Department's financial reports as fixed assets and depreciated in accordance with the FMR Volume 11B.

3. For budget execution purposes only, Activities will report all obligations made before April 4, 2007 under the old threshold rules. If new obligations are incurred to complete a FY 2007 project, the whole project falls under the old limits. Do not report obligations for FY 2007 projects between \$100,000 and \$250,000 made after April 4, 2007 against the capital budget except for prior year carryover projects. Prior year carryover projects from FY 2006 and prior will be capitalized under the old limits, regardless of when the project is obligated. The above changes are for budget reporting only.

4. **CAPITAL PROJECT WITHIN SCOPE OBLIGATION ADJUSTMENTS:** Capital obligation adjustments must be charged to the program year cited for the original project. Capital obligation authority can be provided for any program year for within scope increases if the following conditions are met; (1) the original program year must have sufficient unobligated budget authority (original program plus program adjustments less actual obligations) to accommodate the adjustment, and (2) the total obligations, including both new obligations and all adjustments, cannot exceed the total obligation authority for all program years issued on the AOB. If these conditions are met, this AOB automatically provides the authority to obligate prior year program funds for within scope capital adjustments of less than \$100,000. Since the adjustments must cite the original program year, the obligation authority for a currently issued program year is not available on the AOB. The offset must be sufficient to limit total capital obligations during the fiscal year to the total obligation authority issued on the AOB. Subsequent AOBs may restore this authority by issuing prior year program funds if appropriate. In addition, this document provides for a revised reprogramming threshold. Components may, without prior approval of this office, reprogram funds up to \$3 million between approved capital budget projects for minor construction and non-ADP equipment and reprogram up to \$1 million between ADP and software projects in a fiscal year program. Deviations from the President's Budget that are consistent with the reprogramming criteria noted above, must be identified to the Director for Revolving Funds within 30 days of occurrence or during the scheduled execution reviews, whichever occurs first. The approved project list for all capital budget obligations follows;

(Dollars in Millions)

		Program Year FY 2006	
Program Year Total			0.000
	Non-ADPE & Telecommunications Equipment	0.000	
	ADPE & Telecommunications Equipment	0.000	
	Software Development	0.000	
	Minor Construction	0.000	
		Program Year FY 2007	
Program Year Total			13.856
	Non-ADPE & Telecommunications Equipment		1.933
	Replacement Equipment (VAR)	1.933	
	Productivity Equipment (0)	0.000	
	New Mission Equipment (0)	0.000	
	Environmental Compliance Equipment (0)	0.000	
	ADPE & Telecommunications Equipment		0.935
	Computer Hardware (Production) (VAR)	0.935	
	Computer Software (Operating System) (0)	0.000	
	Telecommunications Equipment (0)	0.000	
	Other Computer & Telecommunications Support Equipment (0)	0.000	
	Software Development		8.518
	Financial Initiatives (MFCS) (Project Cancelled)	0.000	
	One Touch Support	0.750	
	UADPS-ICP / UADPS-U2/SP (\$+0.855 realignment from MFCS)	5.268	
	Birdtrack	1.000	
	One Supply	1.500	
	Minor Construction <= \$750K		2.470
	Replacement (0)	0.000	
	Productivity (0)	0.000	
	New Mission (VAR)	2.470	
	Environmental Compliance (0)	0.000	
Total Capital Budget Program			13.856

*SF 133

SF 133 Report of Budget Execution and Budgetary Resources				
Accounting Period: September, 2007				
Agency: Army				
974930.001				
	INDUSTRIAL OPERATIONS	SUPPLY MANAGEMENT	COMPONENT LEVEL ADJUST	TOTAL
Budgetary Resources				
1. Unobligated balance:	1,748,757,626.64	5,991,251.43	36,713,713.29	1,791,462,591.36
A. Brought forward, October 1 (+/-)	1,748,757,626.64	5,991,251.43	36,713,713.29	1,791,462,591.36
2. Recoveries of prior year obligations:	107,557,577.01	1,023,211,440.40	0.00	1,130,769,017.41
A. Actual	107,557,577.01	1,023,211,440.40	0.00	1,130,769,017.41
B. Anticipated	0.00	0.00	0.00	0.00
3. Budget authority:	6,790,515,962.07	21,248,828,672.64	0.00	28,039,344,634.71
A. Appropriation:	0.00	627,854,000.00	0.00	627,854,000.00
1. Actual	0.00	627,854,000.00	0.00	627,854,000.00
2. Anticipated	0.00	0.00	0.00	0.00
B. Borrowing authority	0.00	0.00	0.00	0.00
C. Contract authority	121,318,361.89	10,594,014,694.21	0.00	10,715,333,056.10
D. Spending authority from offsetting collections (gross):	6,669,197,600.18	10,026,959,978.43	0.00	16,696,157,578.61
1. Earned:	5,173,652,044.96	10,156,970,298.89	0.00	15,330,622,343.85
a. Collected	5,114,302,101.10	10,112,983,943.98	2,661.79	15,227,286,706.87
b. Change in receivables from Federal sources	59,349,943.86	43,986,354.91	(2,661.79)	103,333,636.98
2. Change in unfilled customer orders (+/-):	1,495,545,555.22	(130,010,320.46)	0.00	1,365,535,234.76
a. Advance received	35,276,448.69	(5,881,360.62)	0.00	29,395,088.07
b. Without advance from Federal sources	1,460,269,106.53	(124,128,959.84)	0.00	1,336,140,146.69
3. Anticipated for rest of year, without advance	0.00	0.00	0.00	0.00
4. Previously unavailable	0.00	0.00	0.00	0.00
5. Expenditure transfers from trust funds	0.00	0.00	0.00	0.00
a. Collected	0.00	0.00	0.00	0.00
b. Change in receivables from trust funds	0.00	0.00	0.00	0.00
c. Anticipated	0.00	0.00	0.00	0.00
4. Nonexpenditure transfers, net:	0.00	(145,700,000.00)	0.00	(145,700,000.00)
A. Actual transfers, budget authority (+/-)	0.00	0.00	0.00	0.00
B. Anticipated transfers, budget authority (+/-)	0.00	0.00	0.00	0.00
C. Actual transfers, unobligated balances (+/-)	0.00	(145,700,000.00)	0.00	(145,700,000.00)
D. Anticipated transfers, unobligated balances (+/-)	0.00	0.00	0.00	0.00
5. Temporarily not available pursuant to Public Law _____ (-)	0.00	0.00	0.00	0.00
6. Permanently not available (-):	(2,419,363.38)	(11,532,325,418.83)	0.00	(11,534,744,782.21)
A. Cancellations of expired and no-year accounts (-)	0.00	0.00	0.00	0.00
B. Enacted reductions (-)	0.00	(64,000.00)	0.00	(64,000.00)
C. Capital transfers and redemption of debt (-)	0.00	0.00	0.00	0.00
D. Other authority withdrawn (-)	(2,419,363.38)	(11,532,261,418.83)	0.00	(11,534,680,782.21)
E. Pursuant to Public Law _____ (-)	0.00	0.00	0.00	0.00
F. Anticipated for rest of year (-)	0.00	0.00	0.00	0.00
7. Total budgetary resources	8,644,411,802.34	10,600,005,945.64	36,713,713.29	19,281,131,461.27
STATUS OF BUDGETARY RESOURCES				
8. Obligations incurred:	6,170,800,028.77	10,594,014,694.21	0.00	16,764,814,722.98
A. Direct:	0.00	0.00	0.00	0.00
1. Category A	0.00	0.00	0.00	0.00
2. Category B	0.00	0.00	0.00	0.00
Category B [Program 1]	0.00	0.00	0.00	0.00
Category B [Program 2]	0.00	0.00	0.00	0.00
3. Exempt from apportionment	0.00	0.00	0.00	0.00
B. Reimbursable:	6,170,800,028.77	10,594,014,694.21	0.00	16,764,814,722.98
1. Category A	0.00	0.00	0.00	0.00
2. Category B	6,170,800,028.77	10,594,014,694.21	0.00	16,764,814,722.98
Category B [Program 1]	6,170,800,028.77	10,594,014,694.21	0.00	16,764,814,722.98
Category B [Program 2]	0.00	0.00	0.00	0.00
3. Exempt from apportionment	0.00	0.00	0.00	0.00
9. Unobligated balance:	2,473,611,773.57	5,991,251.43	36,713,713.29	2,516,316,738.29
A. Apportioned:	2,473,611,773.57	5,991,251.43	36,713,713.29	2,516,316,738.29
1. Balance, currently available	2,473,611,773.57	5,991,251.43	36,713,713.29	2,516,316,738.29
2. Apportioned for subsequent periods	0.00	0.00	0.00	0.00
3. Anticipated (+/-)	0.00	0.00	0.00	0.00
B. Exempt from apportioned:	0.00	0.00	0.00	0.00
1. Balance, currently available	0.00	0.00	0.00	0.00
2. Anticipated (+/-)	0.00	0.00	0.00	0.00
C. Other Available	0.00	0.00	0.00	0.00
10. Unobligated balance not available	0.00	0.00	0.00	0.00
A. Deferred	0.00	0.00	0.00	0.00
B. Withheld pending rescission	0.00	0.00	0.00	0.00
C. Other	0.00	0.00	0.00	0.00
11. Total status of budgetary resources	8,644,411,802.34	10,600,005,945.64	36,713,713.29	19,281,131,461.27
CHANGE IN OBLIGATED BALANCES				
12. Obligated balance, net	(723,804,951.47)	6,179,876,630.24	1,847,770.42	5,457,919,449.19
A. Unpaid obligations, brought forward, October 1 (+)	1,629,197,661.84	7,923,955,153.21	2,745,797.88	9,555,898,612.93
B. Uncollected customer payments from Federal sources, brought forward, October 1	(2,353,002,613.31)	(1,744,078,522.97)	(898,027.46)	(4,097,979,163.74)
13. Obligations Incurred (+) (Line 13 should equal Line 8)	6,170,800,028.77	10,594,014,694.21	0.00	16,764,814,722.98
14. Gross outlays (-) (Opposite sign)	(5,406,036,334.24)	(8,928,875,624.65)	(121,269.88)	(14,335,033,228.77)
15. Obligated balance transfers, net	0.00	0.00	0.00	0.00
A. Actual transfers, unpaid obligations (+/-)	0.00	0.00	0.00	0.00
B. Actual transfers, uncollected customer payments from Federal sources (+/-)	0.00	0.00	0.00	0.00
16. Recoveries of prior year unpaid obligations, actual (-)	(107,557,577.01)	(1,023,211,440.40)	0.00	(1,130,769,017.41)
17. Change in uncollected customer payments from Federal sources	(1,519,619,050.39)	80,142,604.93	2,661.79	(1,439,473,783.67)
18. Obligated balance, net, end of period:	(1,586,217,884.34)	6,901,946,864.33	1,729,162.33	5,317,458,142.32
A. Unpaid obligations (+)	2,286,403,779.36	8,565,882,782.37	2,624,528.00	10,854,911,089.73
B. Uncollected customer payments from Federal sources (-)	(3,872,621,663.70)	(1,663,935,918.04)	(895,365.67)	(5,537,452,947.41)
NET OUTLAYS				
19. Net outlays	256,457,784.45	(1,178,226,958.71)	118,608.09	(921,650,566.17)
A. Gross outlays (+)	5,406,036,334.24	8,928,875,624.65	121,269.88	14,335,033,228.77
B. Offsetting collections (-)	(5,149,578,549.79)	(10,107,102,583.36)	(2,661.79)	(15,256,683,794.94)
FOR INFORMATION ONLY				
I. Accounts Receivable	(237,853,692.24)	(155,012,813.92)	(895,365.67)	(393,761,871.83)
II. Unfilled Customer Orders from Federal Sources	(3,634,767,971.46)	(1,508,923,104.12)	0.00	(5,143,691,075.58)
III. Undelivered Orders	1,791,815,930.59	7,716,650,765.08	0.00	9,508,466,695.67
IV. Accounts Payable	494,587,848.77	849,232,017.29	2,624,528.00	1,346,444,394.06
V. Advances and Prepayments, End of Period	(32,582.49)	(17,174.17)	0.00	(49,756.66)
V.a. Downward Adjustments of Prior-Year Undelivered Orders	(32,582.49)	(17,174.17)	0.00	(49,756.66)
V.b. Upward Adjustments of Prior-Year Undelivered Orders	0.00	0.00	0.00	0.00
VI. Unearned Revenue, End of Period	(103,343,646.54)	(34,121,714.03)	0.00	(137,465,360.57)

*AR 1307

Statement of Operations

	TOTAL	Industrial Operations	Supply Management	Component Level Adj.
PART I				
STATEMENT OF OPERATIONS				
REVENUES AND FINANCING SOURCES:				
1. Appropriated Capital Used	\$ 627,790	0	627,790	0
2. Revenue from Sales of Goods and Services	\$ 17,390,570	5,278,338	12,112,233	0
a. Gross Revenue from Sales	\$ 17,725,235	5,278,249	12,446,986	0
b. Minus: Credits Allowed on Sales	\$ (334,664)	89	(334,753)	0
3. Other Revenue and Financing Sources	\$ 7,821	7,821	53,935	0
4. Total Revenue and Financing Sources	\$ 18,080,116	5,286,159	12,793,957	0
	0			
EXPENSES:				
5. Program or Operating Expenses (Supply and Service Activities)	\$ 3,282,995	0	3,282,995	0
6. Cost of Goods and Services Sold	\$ 9,781,365	5,391,045	4,390,320	0
7. Other Losses	\$ 1,758,676	12,808	1,745,868	0
8. Total Expenses	\$ 14,823,036	5,403,854	9,419,182	0
NET OPERATING RESULTS:				
9. Revenue Less Cost Incurred Before Extraordinary Items	\$ 3,257,080	(117,695)	3,374,775	0
10. Plus (Minus) Extraordinary Items	\$ 0	0	0	0
11. Net Operating Results (NOR)	\$ 3,257,080	(117,695)	3,374,775	0
NET OPERATING RESULTS FOR RATE PURPOSES:				
12. Plus (Minus) Deferred Operating Results and Depreciation(From Part V)	\$ 0	0	0	0
13. Recoverable Net Operating Results	\$ 3,257,080	(117,695)	3,374,775	0

*AR 1307 Part VII

**PART VII
INVENTORY MANAGEMENT REPORT**

	Current Year To Date
A. Customer Orders Accepted - Cumulative	12,585,738
B. Gross Reimbursable Sales of Property, Inventory, & Services - Cumulative	12,428,285
C. Unfilled Customer Orders	1,543,045
D. Customer Returns - Credits Granted - Cumulative	2,314,635
E. Net Reimbursable Sales of Property - Cumulative	10,143,261
F. Purchases at Cost (LAC) - Cumulative	4,612,884
G. Obligations - Cumulative	9,570,803
H. Obligations - Reimbursable	9,554,987
I. Obligations - Augmentation - Cumulative	8,428
J. Obligations - Mobilization - Cumulative	6,979
K. Outstanding Commitments	0
L. Inventories - Stock on Hand	32,107,933
M. Other Inventories	368,157
N. Inventories in Transit	464,280
P. Total Inventories	32,940,369
Q. Customer Returns Without Credit - Cumulative	10,340,292
R. Transfers to Reutilization and Market - Cumulative	2,830,896
S. Material Returns to Suppliers - Cumulative	-138,935
T. Undelivered Orders	7,652,382
U. Fund Balance with Treasury	0
V. Funds Collected - Cumulative	10,107,103
W. Funds Disbursed - Cumulative	8,928,875
X. Accounts Receivable - Intragovernmental	155,013
Y. Accounts Receivable - Non-Federal	0
Z. Accounts Payable	913,503