

**SUMMARY OF MAJOR CHANGES TO
DOD 7000.14-R, VOLUME 2B, CHAPTER 9
“DEFENSE WORKING CAPITAL FUNDS
ACTIVITY GROUP ANALYSIS”**

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section,
Paragraph, table or figure that includes the revision

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

| PARA | EXPLANATION OF CHANGE/REVISION | PURPOSE |
|--------|--|---------|
| 090103 | Clarified policies for Airlift Readiness Account | Update |
| 090103 | Updated policies for Laboratory Revitalization | Update |
| 090103 | Added policies for Foreign Currency Exchange Rates | New |
| 090106 | Added Military Clothing Items and Individual Equipment | New |
| 090107 | Changed Preparation of Materials Paragraph Number | Update |
| 090108 | Changed References Paragraph Number | Update |
| 090204 | Modified the carryover calculation | Update |
| 090402 | Modified Exhibit Fund-6 | Update |
| 090402 | Modified Exhibit Fund-9a Minor Construction Instructions | Update |

TABLE OF CONTENTS

DEFENSE WORKING CAPITAL FUNDS ACTIVITY GROUP ANALYSIS

0901 GENERAL3

090101 Purpose.....3

090102 Background.....3

★090103 Policy4

090104 Rate Setting in the Activity Groups26

090105 Public-Private Partnerships at Defense Working Capital Fund Depot Maintenance
Activities.....28

★090106 Military Clothing Items and Individual Equipment.....30

★090107 Preparation of Materials.....30

★090108 References.....30

0902 PROGRAM AND BUDGET REVIEW SUBMISSION.....31

090201 Purpose.....31

090202 General.....31

090203 Supply Management Activity Groups32

★090204 Non-Supply Activity Groups39

090205 Submission Requirements.....45

0903 CONGRESSIONAL JUSTIFICATION/PRESENTATION45

090301 Purpose.....45

090302 Organization of Justification Books.....46

0904 ACTIVITY GROUP ANALYSIS FORMATS.....47

090401 Purpose.....47

★090402 Defense Working Capital Fund Exhibits47

CHAPTER 9**DEFENSE WORKING CAPITAL FUNDS ACTIVITY GROUP ANALYSIS**0901 GENERAL090101. Purpose

This chapter highlights the policies and justification procedures underlying budget formulation for the Defense Working Capital Funds (DWCF).

090102. Background

A. Revolving funds were established to satisfy recurring Department of Defense requirements using a businesslike buyer-and-seller approach. The generators of requirements justify the need for funds to the Congress, but are not always the organizations that execute the requirement. In some instances, the "customers" or "buyers" contract with DoD "provider" or "seller" organizations that have expertise in the service or product required, and operate under business financial management principles. Unlike profit-oriented commercial businesses, the revolving funds goal is to break even over the long term. Revolving fund selling prices established in the budget are stabilized or fixed during execution to protect customers from unforeseen fluctuations that would impact on their ability to execute the programs approved by the Congress.

B. The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of support organizations funded through DWCF and decision-makers at all levels more concerned with the costs of goods and services. Requiring the operating forces to pay for support they receive provides increased assurance that services supplied and paid for are actually needed. Prior to the establishment of an activity under DWCF, a charter, which sets forth the scope of the activity group shall be prepared and signed by the Secretary or Assistant Secretary of the Military Department or by the Director of a Defense Agency, as applicable. The charter is submitted to the Comptroller of the Department of Defense for approval. Four criteria are used in evaluating potential activity groups for inclusion into the Fund. The four criteria are: identification of outputs that relate to products or services provided by the business to customers; establishment of a cost accounting system to collect costs of producing outputs; identification of customers so that resources can be aligned with the requirements; and evaluation of buyer-seller advantages and disadvantages to include assessment of the customers' ability to influence cost by changing demand.

C. Revolving funds have been in use by the Military Components for a considerable period of time. Modern day revolving fund authority is provided by the National Security Act of 1947, as amended (Title 10 U.S.C., Section 2208). The FY 1996 DoD Authorization Act (Public Law 104-106) codified the Defense Business Operations Fund (the predecessor of the Defense Working Capital Fund) in Chapter 131 of Title 10, U.S.C.

D. Revolving Fund Activities evolved from two distinct categories. The first type, Stock Funds, dealt with procuring material in volume from commercial sources and holding an inventory. Subsequently, activities sold to the authorized customer who needed the item in order to achieve weapon systems readiness or provide required personnel support items. The second type, Industrial Funds, provided industrial and commercial goods and services such as depot maintenance, transportation, and research and development. Both types of revolving funds were financed primarily by reimbursements from customers' appropriated accounts.

E. The Department of Defense expanded the use of businesslike financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. Building on revolving fund principles, cost and performance are linked together and the Fund's managers are expected to operate within cost goals established in operating and capital budgets.

F. DBOF combined existing commercial or business operations that were previously managed as individual revolving funds into a single revolving, or business management, fund. The Fund Treasury account has five sub accounts (one for each Military Department and Defense-wide). On December 11, 1996, the Under Secretary of Defense (Comptroller) reorganized DBOF and created four Working Capital Funds: Army, Navy, Air Force, and Defense-Wide. Further, on December 16, 1997, a separate Working Capital Fund was established for the Defense Commissary Agency effective in FY 1999. This change retains the numerous benefits and improvements resulting from the implementation of DBOF while clearly establishing the Component's responsibility for managing the functional and financial aspects of their activities.

G. Prior to FY 1992, industrially funded activities did not receive funding documents. All funding authority was provided through customer orders. With the implementation of the Funds, annual operating budgets that provide official management cost goals and capital budgeting limitations are issued to the Services and Agencies for each activity group.

H. For businesses within the Fund, unit cost goals and fixed prices make it possible to measure changes in cost based on financial operating results. This cost-oriented approach encourages management to look at all costs, including overhead, in terms of the output of the business and provides visibility of cost drivers.

★ 090103. Policy

These policy statements are for preparing the program and budget review submission.

A. Cash Management

1. The cash management policy is to maintain the minimum cash balance necessary to meet both operational requirements and disbursement requirements in support of the capital program. Cash generated from operations is the primary means of

maintaining adequate cash levels. The ability to generate cash is dependent on setting rates to recover full costs to include prior year losses; accurately projecting work load; and meeting established operational goals.

2. The responsibility for DWCF cash management was returned to the Components and Agencies effective February 1, 1995. This provides activity group managers additional control of and accountability for their operations, since cash management is an integral part of operational and cost management.

3. Any transfers of cash between DWCF activity groups, whether directed internally by the Components or as the result of audit, Departmental guidance, or Congressional direction, will be included in the affected activity group's budgets. Cash transfers will not be made without prior consultation with and approval of the OUSD (Comptroller). Further, such transfers will be formally documented and will be reflected in both the gaining and losing activity groups' budget justification books for the President's Budget Submission. Lastly, transfers between working capital funds or between working capital funds and direct appropriations require congressional approval.

4. The major points included in the policy are:

a. Effective cash management is directly dependent on the availability of accurate and timely data on cash levels and operational results.

b. Cash levels should be maintained at 7 to 10 days of operational cost and cash adequate to meet six months of capital disbursements. Cash levels will be calculated using the following formula: Total operating budget disbursements for a fiscal year divided by either 260 or 261 available workdays in a fiscal year (as documented in OMB Circular A-11) multiplied by the number of days cash desired. This amount is then added to the projected disbursements for six months of Capital Investment Program Outlays and any additional cash reserves approved by Director of Revolving Funds.

c. Cash plans will be developed to facilitate the cash management process. Plans consider collections, disbursements, appropriations, and other cash transactions based on Component estimates. This annual plan will be initially developed during the budget process and will be an integral part of the budget document.

d. In addition, a monthly phasing analysis of collections and disbursements as part of the cash plan will be required to monitor execution. This monthly execution review will lead to increased management attention in reducing costs, emphasizing timely billing, collecting revenue, and disbursing.

e. Components must explain variances between cash balances and Accumulative Operating Results. In addition to explaining variances based on operations, non-operational events (e.g. transfers or Capital outlays in excess of depreciation expense) that affect cash and operating results must also be explained and reflected in the components' Revenue and Expense Statement (Fund 14).

5. A goal of the DWCF is to minimize the use of Advance Billing of Customers to maintain cash solvency unless required to avoid Anti-Deficiency Act Violations. Title 10 USC 2208 (l) requires that the Secretary of the Military Department notify Congress within 30 days after an advance billing is made. The Director for Revolving Funds shall approve, in advance, all requests for advance billing authority. Components will provide a copy of the Congressional notification letter to the Revolving Funds Director as soon as possible. By law, advance billings for the Defense Working Capital Funds may not exceed \$1.0 billion in any year.

6. Cash management is an integral part of DWCF activity management. The operational control of actions taken by each DWCF activity, which result in cash disbursements and collections, resides with the Components. Decentralizing cash management provides the Component's additional control of and responsibility for their operations. This policy requires that each level of management, within the Department, participate in the execution of the policy in order to improve the management of DWCF cash.

B. Operating Budget. The operating budget contains the annual operating costs of an activity or Component, including depreciation or amortization expenses. To minimize costs within activity groups, all goods and services should be purchased, whenever possible, from the source that provides them at least cost, unless there are some other considerations such as mobilization or readiness that prohibit this flexibility. Direct, indirect and overhead costs are to be included in the evaluation when comparing costs of organic or commercial sources.

C. Capital Budget

1. The Capital Budget is that portion of the DWCF Budget that justifies the purchase of assets that equal or exceed capitalization thresholds and have a useful life of two or more years. Except for minor construction projects, the Capital Budget shall include items purchased by a revolving fund with a unit cost that is greater than or equal to \$250,000. The capitalization threshold for Minor Construction is \$100,000. Prior to April 2007, the Expense/Investment threshold for DWCF activities was \$100,000 for all categories.

2. With the exception of major construction and items listed in paragraphs C5 and C9 below, acquisition of all capital assets for use by activities within the Fund will be financed through the Fund. The Capital budget shall not be used to establish a new or to expand organic capability except as specifically approved in a capital budget.

3. The legal requirements for the DWCF Capital Budget are found in 10 U.S.C. 2208, paragraphs k (1) and (2), m, and o (1) (b). 10 U.S.C. 2805 contains specific direction as it relates to Minor Construction limitations.

4. Included in the capital budget are the following types of assets:

- a. Automated Data Processing Equipment (ADPE).
- b. Non-ADPE Equipment.
- c. Automated Data Processing Software, whether internally or externally developed.
- d. Minor Construction.

5. The following items are specifically excluded from the DWCF Capital Budget and must be financed by Appropriated Funds:

- a. Major Range and Test Facility Base (MRTFB) Activities Items (equipment and minor Construction) that meet the DoD Investment capitalization criteria for use by MRTFB operating within the fund.
- b. Military and Tenant support functions.
- c. Major Weapons Systems (Aircraft, Ships, Tanks, Barges etc.), and general-purpose passenger type vehicles.
- d. Equipment and minor construction projects purchased to meet mobilization requirements, but not used during peacetime operations.
- e. Equipment initially procured and usually furnished as part of a weapons system and/or support system. This includes initial common support equipment for depot maintenance support of new weapons systems.
- f. Equipment normally funded by appropriated funds and provided to contractors as Government Furnished Equipment (GFE). The GFE is incorporated into, used in conjunction with, or consumed in the production of, an end product. The customer uses appropriated funds to purchase the GFE and provides it at no cost to the DWCF).
- g. Minor Construction projects for non-DWCF activity or military support functions.
- h. Construction and facility investment projects that exceed the amount specified in 10 USC 2805 for funding under Operations and Maintenance appropriations.
- i. Environmental projects financed or submitted for funding by the Defense Environmental Restoration Account.

Activities.

- j. Capital Investments for Morale, Welfare, and Recreation

- k. Such other exclusions as may be approved by the USD(C).

6. The DWCF Capital budget is subject to congressional approval. Once approved, the budget permits a DWCF Activity to use contract authority to purchase capital assets in advance of having funded orders on hand.

7. The Capital Budget is a separate administrative control of resources. As such, the Capital Budget is subject to the rules of 10 USC 1517, the Anti-Deficiency Act. Therefore, obligations may not exceed the amount approved.

8. Budget versus Accounting Capitalization Guidance

a. There is a difference between the expense/investment threshold established by the Congress and the capitalization threshold established for accounting purposes. The expense/investment threshold determines whether a DoD activity purchases an asset using Operation and Maintenance or Procurement appropriations. For DWCF activities this limit determines whether an asset is purchased using the operating budget or the capital budget. For accounting purposes, the capitalization threshold determines when an activity records and depreciates an asset on the financial statement. The two criteria are not the same.

b. Activities will establish DWCF rates using the expense/investment threshold of \$100,000 for Minor Construction projects and \$250,000 for all other capital assets.

c. DWCF activities will record all items purchased using Capital Budget Obligation Authority on the balance sheet and depreciate those assets over its useful life.

d. For accounting purposes, the capitalization threshold is \$20,000 for Minor Construction and \$100,000 for all other Capital Investments.

e. If an asset meets the accounting capitalization threshold, but is less than the budget investment threshold, the DWCF activity will record this asset on the financial statements as a capital asset and depreciate it over its useful life.

9. Customer Procurement of Capital Assets

a. Appropriations may purchase Capital Assets for use by a DWCF activity. However, these assets remain the property of the customer and will not be recorded on revolving fund financial statements unless the asset is transferred to DWCF ownership. At the time of transfer, the asset will be recorded on the DWCF activity financial statements at its net book value and depreciated over the assets remaining useful life.

b. Purchase and installation costs for the initial procurement of any and all depot maintenance capital equipment unique to newly introduced platforms or weapon systems will continue to be funded in the appropriate procurement account. Once transferred to or otherwise capitalized by the depot, the capital equipment becomes the property of the depot. The depot will treat the equipment as a capital asset, depreciate the equipment, and fund subsequent replacement and maintenance of the equipment in its capital and operating budgets in the Fund.

10. Guidance related to the Accounting for Capital Assets will be found in Volume 4, Chapter 6 of the FMR.

11. Depreciation

a. Activities will calculate and accumulate depreciation expenses using the straight-line method. The amount to be depreciated will be decreased by its residual value only if the residual value exceeds 10% of the cost of the asset. Depreciation will be applied equally among accounting periods during the asset's useful life based on established depreciation schedules. The depreciation schedules to be used for Fund activities are found in Volume 4, Chapter 6.

b. For items in the 5 year category, a recovery period of less than 5 years is permitted if the acquiring DoD component is certain that the useful life of the asset is at least two but less than 5 years. The DoD component must document the reasons for the shorter useful life and may not change the recovery period once depreciation has been started.

c. Depending on the nature of the software, it may be depreciated over a period of five years or 10 years. The Component may also request a waiver and propose an alternative depreciation period. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

d. For equipment transferred into an activity group that has preexisting depreciation schedules, depreciation will be based on the remaining book value plus any associated costs for transportation, installation, and other related costs necessary to put the asset into operational use.

e. For capital assets that are transferred to an activity group that have no preexisting depreciation schedules, depreciation will be calculated based on the net value (original acquisition cost less calculated accumulated depreciation) plus any associated costs for transportation, installation, and other related costs necessary to put the asset into operational use.

f. Once assets are capitalized by the DWCF activity, they will continue to be reported as a capital asset and depreciated until the book value of the asset reaches

zero or its residual value, as appropriate. Changes in the capitalization threshold will not impact assets already capitalized unless directed by higher authority.

g. These depreciation rules are consistent with Accounting Standards Advisory Board Statement on Federal Financial Accounting Standard No.6.

12. These assets will be funded through the capital budget and their costs will be depreciated according to depreciation schedules found in Volume 4 Chapter 6, subparagraph 060205J, *Table 6-7*. Resources needed to finance DWCF capital assets shall be derived primarily from depreciation of existing Fund assets. The estimated depreciation expense shall be included in stabilized rates and prices billed to Fund customers. A capital purchase positive or negative surcharge, if required, shall also be included to fund the increment, if any, in excess of, or less than, depreciation when necessary to fund the approved capital investment.

13. Budget Exhibits. The Fund-9a, 9b, and 9c exhibits are required to document an Activity's Capital Budget request. The Fund 9d exhibit is no longer required.

a. Exhibit Fund - 9a, "Capital Investment Summary," represents the summary data of all Equipment, ADP Software, ADP Equipment, and Minor Construction deliverables requested. Data on annual capital cash outlays and depreciation expense are displayed on the 9a exhibit. The prior-year column on the 9a will show all amounts approved in the most recent President's Budget adjusted for actual execution year obligations and reprogramming.

b. Exhibit Fund - 9b, "Capital Investment Justification," provides detailed cost data and narrative justification for each capability listed on the Fund 9a. Each line item on the Fund 9a exhibit will have a corresponding Fund 9b. The Benefit to Investment Ratio, Savings to Investment Ratio and/or the Payback period will be displayed on the Fund 9b. Exhibit Fund-9a and Fund-9b data should agree with, and also should be used for cross-referencing, Exhibit 53 of the Information Technology budget.

c. Exhibit Fund - 9c, "Capital Budget Execution" compares and explains the differences between the most recent President's budget and the current submission.

14. Capital Investment Project Justification and Backup

a. Each proposed acquisition of a capital asset shall be reviewed to ensure that it satisfies all of the following criteria:

(1) It is more economically feasible to purchase rather than to lease the capital asset. While leasing is not a part of the Capital Purchases Program, it may be appropriate for areas of fast changing technology or when work loads are expected to cease before the end of the program or payback period.

(2) The acquisition of a capital asset meets the Department's long-range planning and programming objectives and results in satisfying a documented need for capability to perform valid operations, functions, or services that cannot be performed as effectively or economically by the use of existing equipment and facilities or by contract.

(3) The acquisition of a capital asset complies with policies and regulations governing the acquisition and management of facilities, special tooling, and special test equipment as established by DoD Directive 4275.5, "Acquisition and Management of Industrial Resources" as well as other applicable policies and regulations governing the lease and acquisition of equipment and facilities.

(4) Work load projections used to justify capital purchases must take into account the results of inter-service decisions, work load posture planning decisions, readily available commercial alternatives, and other reasonable options available for accomplishing applicable work load.

b. Capital assets recommended for acquisition shall be those deemed to most efficiently and effectively accomplish the objective for which they are justified. The criteria are: improved efficiency (savings) or effectiveness; required new capability and capacity that cannot be met with current equipment and facilities; replacement of unsafe (locally determined *by an authorized safety representative*), beyond economical repair, or inoperative and unusable assets; and environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements.

c. Pre-Investment Analysis

(1) A formal pre-investment analysis or a cost comparison is required to justify investment projects for Capital Budget submissions in the four Capital budget investment categories. In addition to budget formulation, either an economic analysis or cost comparison shall be used to support a project substitution or to accomplish a reprogramming request. An economic analysis shall be used for all projects with a cost of \$1,000,000 and over. A cost analysis will be used for projects under \$1,000,000.

(2) This pre-investment analysis must be completed prior to inclusion of the capital asset in the capital budget submission, accomplishment of a reprogramming action, or a project substitution. These analyses are maintained by the originating office of the DoD Component as project documentation support for the Capital Budget submission as well as program execution.

(3) A cost comparison shall be prepared for investment projects under \$1,000,000. The cost comparison initially shall be prepared in constant base year dollars and shall present a differential cost display by year for up to a six-year evaluation period beginning with the budget year for which investment funds are requested

(a) Documentation for a cost comparison shall describe the functional process performed; define the need/requirement/objective; identify work load projections; address feasible alternatives; present total costs attributed to each alternative and the differential costs/monetary benefits expected in constant and current dollars over the six-year evaluation period; and provide significant assumptions, constraints, estimating methods, rational, data sources.

(b) Payback period shall be the primary economic indicator used for cost comparisons to rank order within the investment categories of each activity group.

(4) A pre-investment economic analysis shall be prepared to justify capital investment projects of \$1,000,000 or more. The economic analysis shall be prepared on a net present value (NPV) basis and shall comply with applicable DoD or Component guidance as well as functional program guidance. The economic analysis initially shall be prepared in constant base year dollars and shall present a differential cost display by year over the project's expected economic life beginning with the budget year for which investment funds are requested.

(a) Documentation shall describe the functional process performed; define the need/requirement/objective; present and explain work load projections; identify feasible alternatives; present total costs and the differential costs/monetary benefits in constant, discounted, and current dollars over the expected economic life of the project; present estimating methods/relationships, and data sources; identify significant constraints, assumptions, and variables; treat sensitivity and uncertainty of key parameters; and address all other quantifiable benefits as well as any intangible benefits influencing the recommended course of action.

(b) Quantifiable benefits are all outputs/results achieved in return for investment dollars associated with an alternative.

(c) Benefit to Investment Ratio (BIR) shall be the primary indicator used to rank order projects of \$1,000,000 or more within the investment categories of each activity group. Payback period should also be considered in the ranking process. A Savings to Investment Ratio should be calculated for Automated Information Systems Projects.

(d) Automated economic analysis programs and reports may be used if the programs provide comparable information to that of standard economic analysis reports.

(5) Payback Period is used to compare the period of time, in years, necessary for an alternative to repay its investment cost based on the monetary benefits expected. This metric should be presented in tenths of years (i.e. 7.2 years.)

(6) Benefit to Investment Ratio (BIR) is used to compare project alternatives in terms of all expected monetary benefits inclusive of whole and partial manpower productivity savings resulting from increased efficiency and other cost avoidance achieved over the total project life under evaluation. The BIR is calculated using discounted constant dollars, as an index value and rounded to two decimal places. The value must be greater than one to be cost beneficial. The larger the ratio, the greater the advantage of the project.

(7) A Savings to Investment Ratio (SIR) should be calculated for Automated Information Systems. This metric is computed using discounted dollars and is a ratio between actual savings in terms of funds no longer required and the investment cost.

15. Guidance on Software

a. The term “software” includes both operating software and application software. As defined in OMB Circular A-11, software includes systems programs, application programs, commercial-off-the-shelf (COTS) software, independent subroutines, data bases, and software documentation. Software that is integrated into hardware, and is necessary to operate the hardware, rather than to perform an application, should be budgeted with, and capitalized as part of the hardware. Systems application software, however, should be budgeted separately either as an expense or as a capital investment depending on whether it meets the criteria for a capital asset. Systems application software may be acquired through (1) the purchase of COTS system; (2) the development of new applications through either internal development or contractual effort; or (3) the modernization of existing software that significantly expands and/or enhances its existing capabilities.

b. Software development/modernization will be budgeted by project. The full scope of a software development project may consist of efforts in any or all of the following three phases: (1) Preliminary Design Phase, (2) Software Development Phase, and (3) Post Implementation Phase. While all of these costs are part of the project, only the software development phase is capitalized.

(1) The preliminary design phase consists of conceptual formulation of alternatives; evaluation and testing of alternatives, determining the existence of needed technology, and final selection of an alternative. This phase consists of all functional actions, including source selection for COTS and all actions prior to Systems Requirements Specification for internally developed software. All these costs will be expensed as part of the DWCF operating budget.

(2) Software development phase consists of design of a chosen alternative including software configuration and interfaces, coding, and installation of software and related hardware, and testing, which may include parallel processing development of user manuals and training.

(3) The post implementation/operational phase consist of Data Conversion and application maintenance will be expensed. It includes functional training and documentation. Operational testing and evaluations conducted after technical acceptance of the software will also be expensed.

(4) These rules are in effect for any system or severable module of a system budgeted for FY 2003 and beyond. These rules are consistent with Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards Number 10 issued in June 1998.

c. Technical software support and maintenance software support occurring after system installation are treated in DWCF as operational expenses. Exclude from the capital budget all costs incurred prior to Milestone 0, Concept Exploration and Definition. Costs such as basic research, study, exploratory development establishing feasibility and practicality of proposed solutions, rough order of magnitude estimates, etc., are treated in DWCF as operational expenses.

d. Software amounts included in DWCF capital budget submissions should include those software development or acquisition efforts for the benefit of the DWCF activity. Software developed or acquired for a specific customer order should be charged to and reimbursed by the requesting customer. Types of cost to be included in a software development project include total labor and non-labor costs such as: (1) all direct costs for civilian and military personnel; (2) contractor labor; (3) supplies; (4) travel; (5) processing support for testing; (6) indirect costs; and (7) general and administrative costs (e.g., base operations support, higher headquarters, and depreciation for central design activity-owned assets).

e. Software projects may be accomplished in modules. A module is an application that may be operated or used independent of other modules within a system. Where an entire system consists of more than one severable module, request for each severable module in the year the module is started. Funding requests shall be sufficient to complete the module. If several modules make up a complete ADP system, the cost of all modules related to the system will be shown.

f. ADP equipment and ADP software will be separately identified in the capital budget.

g. Software development and modernization costs incurred by Fund Activities for projects installed and operational after October 1 of a specific fiscal year will be depreciated beginning in the month the project is installed and operational (even though it may not be used in operations that month). Incremental deliveries of these projects will be depreciated if the cost of the delivery exceeds \$250,000.

h. 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 costs more than \$1 million must be approved by the Investment

Review Board and the Defense Business Systems Management Committee prior to obligating funds.

16. Guidance on Minor Construction

a. Minor construction projects costing more than \$750,000 shall be funded within the Military Construction appropriation. Exceptions to this limitation are noted in the following paragraph.

b. Effective in FY 2002, 10 U.S.C. 2805 was amended to increase the threshold for unspecified military construction projects funded by the Fund and intended solely to correct a deficiency that is life-threatening, health-threatening, or safety-threatening up to \$1,500,000. However, projects that have an estimated cost that is greater than or equal to \$100,000 must be approved in writing by the Director for Revolving Funds and separately identified in the Component's Annual Operating Budget. Reprogramming thresholds identified in paragraph 090103.C.11 still apply.

c. Congress authorized a DoD Laboratory Revitalization Program that increases from \$1,000,000 to \$2,000,000 the upper ceiling for certain minor military construction projects at DoD laboratories that may be funded from funds available of operation and maintenance. 10 U.S.C. 2805(d). The authority is not permanent, but is subject to periodic Congressional extension. Laboratory Revitalization Program projects must be for the revitalization and recapitalization of Defense laboratories owned by the United States and under the jurisdiction of the Secretary of Defense or of a Military Department. 10 U.S.C. 2805(d). Fund activities designated to participate in the DoD Laboratory Revitalization Program still must obtain prior OUSD (Comptroller) approval for all projects estimated to cost over \$100,000 so that those projects can be specifically identified in the capital program within the AOB prior to project execution. Reprogramming thresholds for the capital asset program identified in paragraph 090103.C.11 still apply.

d. Project planning and design costs associated with minor construction projects are considered a capital investment cost that is capitalized by the DWCF activity and financed in the minor construction portion of the capital budget. Planning and design costs are not included as part of the statutory threshold for minor construction projects. The amount of planning and design funds should be separately identified from individual projects in the Budget Estimates Submission.

17. Reprogramming Guidelines

a. Each Component may reprogram capital funds between activity groups by categories or projects within an activity group, and between operating and capital budgets. There is no minimum or maximum limit on this type of reprogramming. Except as noted below, capital reprogramming require the written approval of the Director for Revolving Funds.

b. The following approval levels and dollar threshold apply to changes to projects approved in the capital budget including re-programming, substitutions, cancellations and additions:

(1) All current year adjustments or changes to information technology capital projects that are greater than \$999,999 must be endorsed by the Defense Business Systems Management Committee and approved Director for Revolving Funds. No changes or adjustments for these projects will be submitted to the Director of Revolving Funds for consideration without certification from the approval authority as directed in the guidance and instructions displayed in the “system compliance” section of the Defense Business Systems Management Committee (DBSMC) website. The address is http://www.defenselink.mil/dbt/tools_certification.html.

(2) Fund Managers may approve transfers between categories or among their activity groups if the change is less than \$3,000,000. However, the Director for Revolving funds must be notified so that these changes may be documented in the activity group’s Annual Operating Budget document.

(3) Capital obligation adjustments must be charged to the program year cited in the President’s Budget for the original project. The prior year capital investment program limitation is equal to actual obligations at September 30 of that fiscal year plus adjustments approved by the Director for Revolving Funds to the prior year program. Prior to the end of the fiscal year, fund managers may request approval to carryover authority for any unobligated capital projects.

(4) Capital obligation authority can be adjusted for prior year within-scope increases provided the unobligated balance in the prior fiscal year capital program is sufficient to finance the increase. The Director for Revolving Funds must approve prior year within-scope increases. The request should propose, when possible, equal offsetting reductions to the current year capital authority to finance the prior year increase.

18. Capability Based Budgeting. Capability Based Budgeting is a means to set requirements that need to be met rather than precisely specifying the means to meet the requirements. It allows for a degree of uncertainty that is to be resolved later in the design process. It is particularly pertinent to information technology equipment and software. Current information technology control processes involve defining the architecture of the required function or product, with defined requirements, but without overly specific detail of how the function or process will be done. Budgeting for capabilities differs from the standard specific budgeting historically performed by the Department. This authorizes the use of Capability Based Budgeting in Defense Working Capital Fund Capital programs.

D. Mobilization/Surge Costs and War Reserve Material

1. Mobilization capability costs include the costs to maintain a surge capacity, to procure and maintain approved war reserve material levels, and/or to maintain other

assets, functions, or capabilities required to meet an operational contingency as documented in Defense Planning guidance or operational plans.

2. All costs at businesses within the Fund related to maintaining a capacity to meet mobilization requirements will be reimbursed by funds that are from direct appropriations and will not be financed through customer rates.

3. War Reserve Material. Obligations for war reserve material will be funded by a direct appropriation to the Fund or after notification to Congress. Such appropriated amounts for secondary items shall be reflected as a separate goal within the applicable Supply Management or Commissary Resale activity group AOB. The SM-6 War Reserve Material exhibit is required to justify War Reserve Material Requirements.

4. Unutilized and Underutilized Plant Capacity

a. Unutilized Plant Capacity (UPC) represents costs associated with maintaining facilities to meet necessary surge capacity due to mobilization or war. UPC costs are not to be included in the DWCF rate structure. Rather, budget these costs in the Operations and Maintenance Accounts. As a general rule, any month during which these mobilization facilities are not used, or if utilized only 20% or less of available work days, the pro-rata support costs for those facilities will be included in the UPC funding. Unutilized plant capacity is a mobilization requirement funded by appropriated funds provided by the DoD Component having management responsibility for this activity.

b. Mobilization Program expenses related to UPC may include both maintenance and labor costs related to the Program.

c. Each non-Supply Activity Group will prepare an UPC Budget Exhibit (Fund – 30). This exhibit documents activity group total capacity, Unutilized Capacity Index, and Justification and cost used in developing the request for UPC. All non-Supply Activity Groups will complete the three capacity index metrics found in Part I of the exhibit. Any non Supply Activity Group requesting UPC funding will also complete the funded UPC line in Part I and the UPC justification in Part II of the exhibit.

5. Industrial Mobilization Costs. The Army has established a new category of costs that includes both UPC and underutilized facilities cost. They call this Industrial Mobilization Cost. The Army will use the same UPC exhibit Fund-30 to justify their IMC costs.

6. Airlift Readiness Account (ARA). The United States Transportation Command (USTRANSCOM) must maintain sufficient airlift capability to respond to transportation requirements for a wide variety of mobilization conditions. To the extent customer revenue is **insufficient** to support the costs of maintaining this capability, a direct appropriation will be provided by the Air Force. TRANSCOM will record this funding as an order and as revenue in its financial reports. This requirement exists in both peacetime and

contingency environments. USTRANSCOM must submit the Fund 8b exhibit to justify the ARA requirement.

7. Reserve Industrial Capacity (RIC). The Military Surface Deployment and Distribution Command (SDDC) shall plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. In addition, SDDC will also plan and program with the Army for 100% of the operating cost at Military Ocean Terminal, Concord (MOTCO). The Military Ocean Terminal, Sunny Point (MOTSU) RIC and the operating costs at MOTCO is a mobilization requirement funded by appropriated funds provided by the DoD Component having management responsibility for this activity. TRANSCOM will record the receipt of this funding as an order and as revenue in its financial reports. This requirement may exist in both peacetime and contingency environments. SDDC will provide a detailed break out of these costs in its budget submission to OUSD (C).

E. Military Personnel

1. Since the majority of military personnel at DWCF activities are there for reasons other than DWCF business requirements (e.g., mobilization, rotational training, command opportunities), the full cost of military personnel should not be included in the DWCF cost of operations or customer rates. Therefore, components will use the civilian equivalent rates, provided by the OUSD (Comptroller) to price military labor at DWCF activities. The difference between the civilian equivalent costs, included in the DWCF budget, and the actual military personnel cost will be budgeted directly in the appropriate military personnel appropriation. The number of military included in the budget will be the number of military average strength assigned to the DWCF business. The budget amount will equal the average strength multiplied by the civilian equivalency rate for each grade. The average strength for the budget year(s) will be calculated using the average fill rate for the three prior years. The fill rate is calculated by dividing actual average strength by the authorized strength for each grade. No adjustments will be made to the DWCF cost of operations to reflect the actual cost of military personnel employed by DWCF activities.

2. The amount expensed for military personnel by DWCF activities and the amount reimbursed to the appropriate military personnel appropriation will be the same as the amount budgeted. No adjustments will be made to the DWCF cost of operations to reflect the actual cost of military personnel employed by DWCF activities. Military Departments having military personnel assigned to other Components will provide to each Component the number of work years that should be included in the DWCF budget submission.

3. The civilian equivalent costs are provided by the OUSD (Comptroller) and are calculated as follows: (a) The current Generic (Rest of U.S.) General Schedule of civilian pay rates, step 5 or Executive Service pay rates of the equivalent grade are used. (b) The amount in (a) is to be multiplied by the average civilian personnel fringe benefits factor applicable to the Military Services and Defense Agencies. The amount for unfunded civilian retirement is not to be included in the fringe benefits percentage factor. (c) The amount calculated in (b) should be multiplied by any proposed civilian pay raises effective in future

periods to arrive at total civilian costs. Civilian personnel fringe benefit rates and military composite rates are provided by the OUSD (Comptroller).

4. See Volume 2A, paragraph 010218 for military personnel pricing policy.

F. Full Recovery of Costs and the Setting of Prices

1. Managers of most activity groups within the Fund are required to set their prices based upon full cost recovery, including all general and administrative support provided by others. Prices are established through the budget process and (except for unusual circumstances) remain fixed during the year of execution. This stabilized rate policy serves to protect customers from unforeseen inflationary increases and other cost uncertainties and better assures customers that they will not have to reduce programs to pay for potentially higher-than-anticipated prices. In turn, this policy allows activities to execute the budgeted program level and permits a more effective use of Fund resources. Prices for sales by depot maintenance activities to private sector entities in conjunction with public-private partnerships may be established as described in paragraph 090105.

2. Except in unusual circumstances, prices for the budget year will be set to breakeven over the long run. This means that prices will be set to achieve an Accumulated Operating Result (AOR) in the budget year of zero. During budget execution, activity groups will record either a positive or negative operating result. Accordingly, prices in the budget year will be set to either make up actual or projected losses or to return actual or projected gains in the budget year(s).

3. An activity group may request that AOR variances be recovered outside the budget year. This request must be included in the budget submission, and must demonstrate that the alternative recovery period will not adversely affect the cash balance of the activity group. A phased recovery schedule must be provided with the budget. The Directorate for Revolving Funds will provide final approval for any alternative AOR recovery plans.

4. Special Circumstances: DWCF rules for pricing and operating loss recovery or gain distribution may be waived if one or more of the following conditions exist.

a. **FUND LIQUIDITY:** Fund managers are required to maintain a monthly total fund cash balance between 7-10 days of operations (plus 6 months outlay for capital purchases). However, several factors could cause the Funds to operate outside the target area. Therefore, in order to prevent the build up of excess cash balances, or ensure fund solvency the Director for Revolving Funds or Fund managers, with the written permission of the Director for Revolving Funds, may direct out of cycle rate adjustments at any time during the fiscal year.

b. DEPOT MAINTENANCE ADDITIONAL REQUIREMENTS: As long as Fund cash balances are within between 7-10 days of operations (plus 6 months outlay for capital purchases) targeted levels depot maintenance activities will recoup losses and return gains in the budget year. However, if cash balances are outside the target area the Director for Revolving Funds or Service Fund managers, with the written permission of the Director for Revolving Funds, may direct out of cycle rate adjustments or surcharges at any time during the fiscal year in order to restore cash to the targeted levels. Also unplanned depot losses recouped in subsequent years may be financed with prior year funds provided all other criteria associated with prior year upward obligations are met.

c. CONTINGENCY OR EMERGENCY OPERATIONS: DWCF pricing and financing requirements may be waived by Fund managers in order to facilitate Department operations during times of war or other national emergencies. Notification of Fund Managers actions must be provided in writing to the Director for Revolving Funds within 30 days of the event.

d. IMPACT OF FOREIGN CURRENCY EXCHANGE RATES: DWCF activity groups operating overseas may experience significant operating losses or gains due to changes in foreign currency exchange rates. While these operating losses and gains are normally recovered or returned through stabilized rate adjustments in budget years, fund managers may propose out-of-cycle rate adjustments to the Director for Revolving Funds in order to address such losses and gains in execution. DWCF activities are not eligible to participate in the Foreign Currency Fluctuations, Defense (FCF,D) (97-X-0803) and the Foreign Currency Fluctuations – Construction, Defense (FCF-C,D) (97-X-0801) accounts themselves. However, if the DWCF activities are able to provide documentation to their customers (and DFAS, as appropriate) showing the exact amounts of operating losses or gains caused by changes in foreign currency rates for the specific goods and services purchased by the DWCF activities on behalf of those customers and then bill or refund those same amounts to customers, those customers with foreign currency fluctuation account access may utilize funding made available through that account to process the bills/refunds (subject to availability of the FCF account funding to pay for such losses). In calculating any gain or loss from foreign currency fluctuations, the DWCF must use the foreign currency exchange rates published as part of the Department's budget justification materials submitted to Congress in support of the President's budget request and follow applicable procedures in FMR Vol. 6A, Chapter 7.

5. Non-Organic Contract Costs

As stated above, DWCF policy requires that Components budget for total costs incurred for activity groups. Thus, Components will include in prices contract costs for effort funded at a DWCF activity group by the customer but performed by contractor (non-organic effort) in the total cost of that DWCF activity group. In addition, the budget estimate will recover all costs associated with contract award and administration through prices charged to the customer.

6. Un-billable Expenses and Operational Losses

Expenses that cannot be billed to an identifiable customer or that were generated from unforeseen cost overruns are to be treated as expenses in the fiscal year in which the costs were incurred. The resulting operating losses shall be included in calculating net and accumulated operating results.

7. Rate Stabilization

Unless approved in writing by the Director for Revolving Funds the prices set for all activity groups' products, goods, or services will match the rate changes approved during the budget review.

G. Reimbursement for Contingency Operations and Humanitarian Efforts

1. All Working Capital Fund (WCF) business areas, including transportation services provided by the United States Transportation Command (USTRANSCOM), operate on a reimbursement basis with users paying for goods and services provided. Payment for contingency operations, including deployment or other emergency response for military or humanitarian assistance, is no exception.

2. Customers of the DWCF are required to reimburse DWCF activities in a timely manner (usually within 30 days). Also, except in unusual circumstances (contingency operations, national emergencies) DWCF activities should not provide goods or services without a properly executed funding document. The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, the unit, major command, or Military Department level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission (such as transportation of military personnel or equipment by USTRANSCOM). The Military Department that controls the equipment or personnel is responsible for payment of costs incurred to accomplish the mission.

3. Consistent with this policy, third party collections for transportation provided in response to a Request for Assistance (RFA) from another government agency is prohibited. The Military Department that controls the equipment or personnel being transported is responsible for reimbursing USTRANSCOM. It is then the responsibility of the Military Department that accepted the RFA to collect any required reimbursements due that Military Department by the requesting government agency.

4. The sole exception to this policy occurs when the USTRANSCOM receives an order from the Joint Chiefs of Staff requiring transportation of non-U.S. owned equipment and/or non-U.S. personnel such as un-reimbursed efforts in support of the United Nations. In those instances, the Army will pay Surface Deployment and Distribution Command (SDDC) costs, the Navy will pay Military Sealift Command (MSC) costs, and the Air Force will pay Air Mobility Command (AMC) costs. Bills may be centralized for more convenient processing if appropriate; however, billings shall be forwarded to the appropriate Military Department within 30 days from the commencement of service or the humanitarian effort.

Payment of these bills, including transportation bills, by the Military Departments must be made in a timely manner

5. This guidance does not address any contingency operation designated by the Secretary of Defense as a "National Contingency Operation" under the provision of the United States Code Title 10, Section 127. Special rules apply for such an operation and those rules should be promulgated separately in conjunction with any designation by the Secretary under the provisions of that section.

H. Base Realignment and Closure (BRAC)

1. BRAC Costs - Costs incurred in implementing the recommendations of the Base Realignment and Closure (BRAC) Commissions will be funded by the appropriate BRAC account and are not to be included in the rates and costs of businesses within the Fund. However, Base Realignment and Closure Program expenses may be incurred prior to receiving an allocation of BRAC funding. However, all costs properly charged against the BRAC account must be reimbursed with BRAC funds. DWCF funds may not be expended prior to complying with the notification requirements imposed by law with respect to the obligation of BRAC funds. 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. Prior year, current year, or budget year operating losses in DWCF are not to be budgeted in the base closure accounts. Costs attributable to base closure actions at DWCF activities to be budgeted in BRAC may include:

a. BRAC directed reductions-in-force, separation incentives, plant closures, plant layaway or custody costs or other BRAC related expenses, such as all costs not associated with a valid work order during the year of closure.

b. Environmental Restoration and Mitigation. This includes reducing, removing, and recycling hazardous waste, and removing unsafe building debris.

c. Planning. Conduct of such advance planning and design as may be required to transfer from an activity being closed to another military installation.

d. Outplacement Assistant. Assistance in relocation, training, or other necessary assistance to civilian employees employed by the Department at installations being closed.

e. Community Programs. This includes economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions will be transferred as a result of closure of a military installation.

2. BRAC and DWCF Rates. Overhead, not specific to BRAC and not in support of producing goods or services for customers, will be financed in the year the costs are incurred with the Components' Operation and Maintenance (O&M) appropriations.

DWCF losses occurring in years prior to closure will be recovered through the rate structure to the extent that there are new customer orders. When there are no new customer orders in the budget year, all overhead not included in rates supported by ongoing work or prior year losses to be recovered in the budget year must be financed as a pass through to the DWCF from the O&M appropriations of the Military Department or Component responsible for the activity incurring the loss. All costs at a closing activity in the year of closure that are not associated with a valid work order or are not valid BRAC costs are O&M costs and must be budgeted in the fiscal year when they will be incurred. BRAC costs are defined in the paragraph above.

3. BRAC Related Permanent Change of Station (PCS) Moves for Defense Working Capital Fund Activities (DWCF). Costs incurred to recruit and hire civilian personnel (including associated PCS costs) to fill vacant positions at an activity that is being transferred from a closing or realigning installation to another military installation in accordance with a BRAC recommendation may properly be considered BRAC costs under the Base Closure and Realignment Act of 1990. As a matter of Department of Defense policy, however, BRAC funds will not be used for such costs except in the case of Defense Working Capital Fund (DWCF) activities. DWCF activities may temporarily charge such costs against the DWCF, provided the DWCF is reimbursed with BRAC or O&M funds by the end of the fiscal year in which the costs are incurred.

I. Funding of Civilian Voluntary Separation Incentive Program

The Fund will finance and include costs in stabilized rates for civilian separation incentive requirements of assigned employees unless they must be offered as a result of directed base realignment and closure action. If the offering is a result of a base realignment and closure action then the appropriate Base Realignment and Closure Account will fund the civilian separation incentive.

J. Base Support

DWCF activities that use any of the services as listed in Exhibit Fund-22 must reimburse host activities in accordance with DoDI 4000.19 (Inter-service and Intra-governmental Support) to the extent that the specified support for the DWCF activity increases the host activity's direct costs. Costs for DWCF mission products and services (e.g., depot supply, depot maintenance, facility engineering services, information processing, communications, and software development) shall be based on the approved stabilized rate. Other support incidental to the DWCF activity's primary mission or purpose shall be budgeted based on direct costs measurable and directly attributable to the DWCF activity (incremental direct cost). Only the incremental change in cost attributable to the DWCF activity (incremental direct cost) shall be chargeable to the DWCF activity. Indirect costs are not to be included as a cost to the DWCF activity. The cost of operations budgeted for these services either as a host or tenant activity should be noted by activity group in Exhibit Fund-22 (Summary of Base Support) that is provided to OSD/OMB with the fall budget submission.

K. First Line Supervision

First line supervision is that level immediately over non-supervisory workers. First line supervisors and above are official supervisory positions and, when acting in a supervisory capacity, their labor costs shall always be budgeted and charged as an indirect cost of the cost center supervised. Crew chiefs, snappers, team leaders, and other subordinate job leaders are not considered first line supervisors. Volume 11B, Chapter 63, paragraph K contains additional information related to charging labor costs.

L. DWCF Management Headquarters Costs

1. A DWCF management headquarters is a discrete organization or part of an organization that has authority over the management of the DWCF activity group. OSD and Service Departmental activities normally do not have this direct responsibility. All the major systems/logistics organizations in the Services include headquarters elements directly supporting DWCF activities that should be funded or reimbursed by DWCF activity groups.

2. Costs for discrete DWCF management headquarters organizations and parts of organizations that perform direct DWCF management headquarters functions can be financed directly in the DWCF or reimbursed by the DWCF activity (whichever is more practical). Only significant costs (exceeding 1 percent of the total activity group costs, or if less than 1 percent, costs that exceed \$1 million) should be reimbursed. In addition, significant costs for common support functions (e.g., counsel, personnel, etc.) at organizations partially funded or reimbursed by DWCF (i.e. that has direct DWCF management responsibilities) can be allocated, if feasible.

M. Dual Funded Organizations

1. A dual funded organization is an organization that is funded (including reimbursable funding) by both the DWCF and other appropriations or accounts. In those instances where a function is funded with a combination of both DWCF and appropriated funds, the function initially will be funded in its entirety either by the DWCF or by appropriated funds. The determination of whether the particular function initially is to be funded by the DWCF or by appropriated funds will be based on the predominance of definable units of measure for the function--e.g., work load, productive hours, outputs, or ultimate use. The part of the organization (or funding source provided) initially funding the function shall be reimbursed for appropriate amounts by other parts of the organization (or financing sources or customers) involved. Reimbursement (and the allocation of costs) between the provider and customer shall be made based on the same unit of measure--e.g., work load, productive hours, outputs, or ultimate use--as was used to determine which organization (or funding source) initially funded the applicable costs; and the amount of reimbursement shall be determined based on the relative portion of that unit of measure attributable to each part of the organization (or funding source) involved. Notwithstanding this policy, the amount of reimbursement for base support services provided by the DWCF to tenant activities shall be determined in accordance with the policies in paragraph 090103.K and DoDI 4000.19.

2. For example, if the part of an organization that is within the DWCF account for 60 percent of the unit of measure for a function shared with the part of the organization funded through appropriated funds, then the DWCF portion of the organization initially would fund all of the costs of performing that function. However, the applicable part of the organization funded through appropriated funds would reimburse the DWCF for (and be allocated) 40 percent of the costs.

3. When a capital asset purchased by the DWCF is also used by the appropriated fund part of the organization, the Fund activity will capitalize the capital asset and bill the appropriated fund customer for the use of the capital asset. Such billings will utilize a stabilized rate that recoups both depreciation and operating costs.

4. When a capital asset purchased by an appropriated fund part of the organization is also used by the DWCF part of the organization, the appropriated fund side will capitalize the asset and bill the DWCF for operating costs only. (Appropriated fund activities do not bill DoD activities for depreciation of capital assets.)

N. Revenue Recognition

1. Revenue and associated costs must be recognized in the same accounting period. Revenue must be recognized in the same manner (that is, a standard policy for recognizing and reporting revenue must apply) for all activities within a DWCF activity group. The “Percentage of Completion Method” is the only method of Revenue Recognition used by non-Supply DWCF activities. The amount of revenue recognized cannot exceed the amount specified in the order. The policy varies based on the type of customer order, the length of time necessary to complete the order, and the value of the order. There are two types of customer orders: (1) end-product (end-item) type orders which, at the completion of the customer order, produce a usable end-product (an overhaul, repair, manufacture, construction, modification, etc.); and (2) service type orders which provide a service over a specified period of time.

2. It is important that revenue recognition procedures include gain and loss recognition in the same period in order for the activity group managers to evaluate the performance of an organization. The revenue recognition policy does not encompass or establish policies for billings to customers or payments from customers.

3. DoD Financial Management Regulation (DoD 7000-14R), Volume 11B, Chapter 11 provides specific revenue recognition guidance by DWCF activity group.

O. Customer Workload Changes

1. When a work order or project is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs, the costs incurred, plus the applied overhead (that is indirect and other normally allocated overhead (G&A) costs), plus costs associated with the cancellation or reduction shall be charged to the customer.

2. DoD 7000-14R, Chapter 1, paragraph 010223, provides specific guidance for the types of directly associated cancellation or reduction costs that can be charged to customers.

P. Extraordinary Write-offs. Extraordinary write-offs of losses, chargeable against Accumulated Operating Results in accordance with accounting policies, shall not be recovered through increases in customer rates in the following circumstances: losses resulting from the disposal or divestiture of capital budget items that have not been fully depreciated at the time they are taken out of service due to BRAC action; gains from customer returns without credit; or losses associated with systematic inventory reductions by disposal of assets associated with force draw downs. All such extraordinary write-offs will be separately identified in the Component's budget submission using the appropriate exhibits (ex Fund SM-5B, Fund-14, Fund 26) Budget documentation will include an explanation which cites the fiscal year, the action which precipitated the divestiture action, the basis of the proposed write-off, and the dollar value. . Components must receive written approval from OUSD (C) via the Director of Revolving Funds before requesting the accounting adjustment from DFAS

Q. Below the Line Adjustments. Below the Line Adjustments may be used to adjust for cash transfers that are not directly related to operational performance. This adjustment will be used when cash position do not support returning or collecting operational performance. Components must receive written approval from OUSD (C) via the Director of Revolving Funds before requesting the accounting adjustment from DFAS.

R. Funding policies reflecting relationships with, and requirements of, other appropriations are provided in Chapter 1, Section 0102.

090104. Rate Setting in the Activity Groups

A. In accordance with paragraph 090103, stabilized rates reflecting full costing will be set during the budget process for all activity groups. The Fund includes a variety of activity groups that are categorized in two groups for rate setting purposes.

1. Supply Management Activity groups. Utilize commodity costs in conjunction with a surcharge to establish customer rates (see paragraph 090203 Supply Management).

2. Non-Supply Management Activity groups: Depot Maintenance, Research and Development, Transportation, Distribution Depots, Base Support, and all other activity groups have unit cost rates established based on identified output measures or representative outputs. These output measures establish rates per output, such as a cost per direct labor hour, cost per product, cost per item received, cost per item shipped, etc. These activity groups establish both their output rates and the stabilized customer rates through the same general process. An example of this process is described below, and a more detailed explanation is provided in paragraph 090204.

B. Definitions and Procedures

1. Stabilized Rate. The stabilized rate is the cost per direct labor hour (or other output measure) customers are charged for the products and services provided by the depot or activity group. A stabilized rate is established for the fiscal year(s) budget being formulated during the budget review process. The stabilized rate is determined by taking the approved Direct Labor Hour rate (or other cost per output measure) for the budget year and adjusting it for both inter-Fund transactions (adjustments to reflect changes in the costs of purchases between activity groups within the Fund), and for the impact of prior year gains or losses as reflected by the AOR. This annual stabilized rate is the rate that will be charged for all new customer orders received and accepted during that specific fiscal year, regardless of the fiscal year the work is actually executed and billed.

2. Stabilized Rate Exceptions. See paragraph 090105 for guidance applicable to the sale of goods and services to public-private partnerships by DoD depot maintenance activities. For more specific guidance and for exceptions to this policy see paragraph 010219B or 090103H. In Supply Management, customers are charged the stabilized price in effect when the item is dropped from inventory.

3. Rate Change. The annually published rate change for activity groups is the percentage change of the stabilized rate or price between fiscal years. As an example, for depot maintenance, the budget year rate is determined by dividing the approved Direct Labor Hour rate proposed for the budget year by the stabilized Direct Labor Hour rate in effect for the current execution year. That value, expressed as a percentage (plus or minus from a base of one), is the composite price change rate customers will use in their appropriated funds submissions.

C. Budgeted Rates. OUSD (Comptroller) will review and approve all final rates and prices developed for the President's budget submission during the Budget Review. Rates charged to customers will be developed by the Components in their budget estimates to recoup all costs associated with the Activity group operating and capital budgets including all labor and non-labor, direct, indirect, and general and administrative overhead costs. In addition, components will include any cash factor to maintain cash solvency or return cash balances in excess of need. Following the determination of required costs, the proposed rate structures will recover the costs of executing the Components' planned support program. During budget formulation, Components may propose more detailed rates that break out overall composite rates by activity or product line within an activity group. If approved, these rates would be used in final budget development and execution. Components will make corresponding adjustments in appropriated customer account budget requests to ensure the customer and Fund business budgets are in balance.

D. Alternative Rate Development. Components may propose methods other than the traditional rate per direct labor hour for recovering the cost of operations. Any alternative pricing methods must be fully documented and justified in the Components Program and Budget Review. Any new method must demonstrate that all operating costs are still recovered, provide a comparison of the current method to the method proposed, show the impact to customer funding requirements, and provide a timeline for implementation. Any change in

rate structure must be approved in advance by the OUSD (Comptroller) and documented in the appropriate activity groups Program Budget Decision.

E. Budget Formulation Rates and Prices. Rates will be established in a multiple step process as described below:

1. Each Service or DoD Component managing an activity group should carefully review all projected costs for all operations projected for the fiscal year, and propose the most cost-efficient operation possible.

2. Customer requirements must be projected to include all anticipated work load programmed for accomplishment during the budget year based on identified outputs such as direct labor hours by product, tons shipped, line items received, and all other approved output measures for each activity group.

3. Adjustments required to comply with OSD and OMB guidance on the impact of inflation, projected pay changes, and other programmatic and policy changes will be included by Components in developing proposed rates.

4. DoD Components will propose costs, program levels, and rate changes by activity group in their budget estimate submissions. Components may propose that customer unique, non-labor direct costs be excluded from the stabilized rates charged to customers. These costs would instead be charged on an actual cost reimbursable basis. Components should show the impact the change in rates structure would have on overall stabilized rates. Final approval of any rate structure proposal is made by the OUSD (Comptroller) P/B in the budget process.

5. Final approved costs, program levels, and rate changes will be established by Program Budget Decision documents, after adjustments required to balance changes to customer funding with anticipated Fund costs, inter-Fund sales and transactions, and adjustments for NOR in order to bring Accumulated Operating Result to zero for the Budget Year for each activity group. Exceptions to this policy are found in paragraph 090103H.

F. Financing of Extraordinary Depreciation. Alternatives exist for financing sunk costs when capital investments are terminated before a product is completed. These costs may be funded through one time charges to operating costs or through direct appropriation. If charged to operating costs and depending on the size of the charge, the loss may be recovered through rates over a two- year period. In a situation where a useable product is produced, even though it is less than the planned product, costs may be reasonably assigned to that product and those costs may be appropriately recovered through depreciation.

090105. Public-Private Partnerships at Depot Maintenance Activities

A. Public-private partnerships are agreements between organic depot maintenance activities and private industry or other entities to perform work and/or to utilize facilities and equipment. Partnerships improve utilization of DoD facilities, equipment, and personnel and enhance support to the war fighter. To further the goal of increased partnering between DoD and private industry, this section sets forth guidance for the pricing of Working Capital Fund depot maintenance goods and services to private sector entities in partnering arrangements. Conditions for the sale of goods and services to non-DoD entities must be based on specific statutory authority.

B. In accordance with the authority granted to the Secretary of Defense by 10 USC §2208(h) to prescribe regulations governing the operation of WCF activities and the use of inventories, this guidance is intended to clarify existing legal authority applicable in certain specific circumstances. The guidance set forth in this section:

1. May not be used to compete for non-defense related work.
2. Does not apply when otherwise precluded by public law.
3. Does not apply to products or services produced under work-share arrangements in which a DoD sponsor assigns work and separately funds the DoD depot maintenance activity and the private sector entity.
4. May be used for sales to private sector entities only when the transaction is part of an arrangement that is officially recognized as a depot maintenance public-private partnership.

C. Sales Prices

1. In order to minimize potential DoD operating losses or gains, sales prices to private sector entities in depot maintenance public-private partnership relationships may be tailored based on the most recent actual and projected costs, rather than on the approved stabilized billing rates charged to DoD customers.

2. Tailored rates or prices charged for sales to private sector partners, if used, shall ensure full cost recovery for the work involved in producing the specific products and services. Such tailored rates and prices shall include: (a) all direct costs, (b) production or shop overhead costs that contribute to the final product and (c) a full allocation of General and Administrative (G&A) overhead costs, distributed on the same basis as for DoD customers. (Since G&A overhead costs cannot be attributed to specific products or services, there is no basis to include or exclude specific items of cost from prices charged to customers.)

3. Exceptions to Working Capital Fund pricing policy for sales to private sector parties in depot maintenance partnership arrangements, as addressed in subparagraphs 1 and 2 above, do not change the requirement that sales prices include unfunded costs, as prescribed in Volume 11B, section 110109, paragraph B.

D. Fixed Pricing

1. Sales of DoD goods and services to private sector entities on a fixed price basis are authorized when the work is well defined and there is a reasonable basis upon which to predict costs. This mirrors private sector practice, improves the ability of private sector partners to predict production costs, and serves to constrain unit cost by more fully utilizing the production capacity of DoD maintenance depots. Cost reimbursable pricing is appropriate when future production costs cannot be reasonably predicted.

2. Multiyear fixed price agreements are authorized when future production costs can be reasonably predicted and the potential for future operating losses and gains are minimal. Prices may be fixed at a predetermined level taking into account future year escalation factors like pay rate changes, general inflation, and the number of units produced. Multiyear fixed price agreements may also incorporate other pricing techniques such as establishment of a base price with provisions for economic price adjustments to accommodate inflation.

E. Advance Payment. When appropriate to the scope of, and risks associated with, a prospective contract, the DoD partner may elect to accept incremental advance payments.

★ 090106. Military Clothing Items and Individual Equipment.

A. The Defense Logistics Agency (DLA) Supply Management activity group procures military clothing requirements in the DoD, and bills users at standard prices. This includes uniforms, combat equipment, tentage, tool sets and kits, hand tools, and cleaning equipment and supplies. The Military Services shall include the costs of new clothing bag items in the military personnel appropriation budget request and new organizational items in the operation and maintenance appropriation budget request. A replacement item shall be deemed a new item for the purposes of this policy if the cost of a replacement item exceeds the cost of the prior item by more than 10 percent in constant dollars.

B. The military personnel appropriation budget and the operation and maintenance appropriation budget should be sufficient to fund the quantity of the initial buy of an item of clothing including the establishment of wholesale inventory levels. New clothing items required prior to receipt of appropriated funds shall be funded in these same accounts by reprogramming action.

★ 090107. Preparation of Materials

General guidance with regard to format and preparation of material is presented in Chapter 1. Chapter 9 provides additional specific guidance with regard to the back-up material required for the Fund and other unit cost budget areas.

★ 090108. References

Chapter 1 provides funding policies to be adhered to include those that impact other appropriations and accounts. Chapter 2 provides guidance related to Military Personnel costs. Chapter 3 provides guidance related to Operation and Maintenance costs and Chapter 8 provides guidance related to Real Property Maintenance and Minor Construction.

0902 PROGRAM AND BUDGET REVIEW SUBMISSION

090201. Purpose

This section provides guidance for preparation and submission of program and budget review and execution review estimates for the Defense Working Capital Funds (DWCF).

090202. General

A. Copies. Numbers of copies of the required materials to be submitted with the annual budget estimates are identified in Chapter 1. Electronic version of individual activity group budgets will be available for download from your web site plus a copy made available to the OUSD (Comptroller) Program and Financial Control Directorate. OUSD (C) will notify Fund Managers if additional copies are required. OUSD (C) and the Office of Management and Budget hold joint budget execution reviews quarterly (or more frequently if required).

B. Classification. The DWCF justification books prepared by the Components are to be unclassified. Any classified exhibits will be submitted under separate cover.

C. Formats. Exhibits will be submitted on 8-1/2 x 11 inch paper, with 3 holes punched along the 11-inch side. Minor variations in format to facilitate automation must be approved by OUSD (Comptroller) prior to September 1. Provide written request for variations to the Director for Revolving Funds no later than August 1. The response to the request will be forthcoming within 10 working days.

D. Automated Requirements. Consistent with the guidance contained in paragraph 010506, the DWCF budget estimates will be entered into the Comptroller Information System (CIS). CIS entries are in obligations.

1. DWCF Operating Budgets will be entered into the CIS as new obligations. However, the hard copy submission should reflect costs with a correlation provided of the relationship between obligations and cost.

2. DWCF Capital Budgets will be entered into the CIS as obligations regardless of program year. Do not enter into the CIS the program year totals. However, the hard copy submission should reflect the full costs of the project or item with Exhibit Fund-9c providing the correlation between the program and obligations.

3. Enter estimates of civilian full-time equivalents (FTEs) for civilian personnel data and military end strength for military personnel data.

4. During the budget review, the alternative estimate contained within Program Budget Decisions will be expressed as obligations, FTEs for civilian personnel, and end strength for military personnel, and will adjust the CIS. Program Budget Decisions will contain compatible cost adjustment summaries for rate and price adjustments and for adjusting financial statements used for budget justification.

090203. Supply Management Activity Groups

A. The methodology formerly contained in DoD Instruction 4140.24, "Requirements Priority and Asset Application for Secondary Items," will be used to develop budgetary requirements until updated. Stratification products will be submitted on a routine basis. A copy of the transition from the stratification to the budget will be provided for each wholesale division.

B. The following statements/tables/exhibits are prescribed for the supply management activity groups of the Fund.

| | | Program Budget Review | Backup to Pres Budget | President's Budget | Execution Review |
|---------|--|--------------------------|--------------------------|-----------------------|---------------------|
| SM-1 | Supply Management Summary by Division | yes | yes | yes | yes |
| SM-3a | Operating Budget | yes | no | no | no |
| SM-3b | Operating Requirement by Weapons System by Division | yes | yes | yes | no |
| SM-4 | Inventory Status | yes | yes | yes | no |
| SM-5a | Surcharge Computation | yes | yes | no | no |
| SM-5b | Customer Price Change | yes | yes | yes | no |
| SM-6 | War Reserve Material | yes | no | yes | no |
| SM-16 | Total Cost Per Output Summary | yes | yes | no | no |
| Fund-1 | Summary of Price, Program, & Other Changes | yes | yes | no | no |
| Fund-1a | Details of Price, Program, & Other Changes/ (OP-32) (1) | yes | no | no | no |
| Fund-9a | Capital Investment Summary | yes | no | yes | no |
| Fund-9b | Capital Investment Justification | yes | no | yes | no |
| Fund-9c | Capital Budget Execution | yes | no | yes | no |

B. The following statements/tables/exhibits are prescribed for the supply management activity groups of the Fund. (continued)

| | Program Budget Review | Backup to Pres Budget | President's Budget | Execution Review |
|--|-----------------------|-----------------------|--------------------|------------------|
| Fund-11 Source of Revenue (1) | yes | no | yes | no |
| Fund-13 Cash Management Plan (2) | yes | yes | no | no |
| Fund-14 Revenue and Expenses (1) | yes | no | yes | no |
| Fund-15 Fuel Data | yes | yes | yes | no |
| Fund-19 Military Personnel by Average End Strength | yes | no | no | no |
| Fund-22 Summary of Base Support | yes | no | no | no |
| Fund-26 Revenue and Expense Phasing Plan (2) | yes | yes | no | no |
| Fund-28 Execution Performance Analysis (2) | no | no | no | yes |
| OP-8 Civilian Personnel Costs (3) | yes | yes | no | no |
| PB-15 Advisory and Assistance Services (3) | yes | yes | no | no |
| PB -22 Headquarters Cost (3) | yes | yes | no | no |

(1) Electronic submission also required

(2) OUSD (C) RF electronic format required

(3) Formats and Instructions are in Volume 2A Chapter 3 for the OP-8 exhibits and Volume 2B Chapter 19 for the PB-15 and PB-22 exhibits.

Note: The SM-3c, SM-10 Fund 9d, 25, 27 and 29 exhibits are no longer required.

C. Definition of Terms Used in Supply Management Activity groups

1. Acquisition Lead Time. The interval in months between the initiation of procurement action and the receipt into the supply system of the production model (excludes prototypes) purchased as the result of such actions. Acquisition Lead Time is composed of two elements, production lead time and administrative lead time.

2. Administrative Lead-Time. That portion of the procurement lead-time that begins with the identification of the need to buy and the contract award.

3. Allocation. Under the appropriations act, direct funds may be appropriated to the DWCF; therefore, obligations may be made against DWCF to procure war reserve material inventory and will be reported separately.

4. Beginning of Period (BOP, BP). The start of a specified fiscal year normally on October 1 used to determine the opening "snapshot" status of resources.

5. Capitalized Inventory. On-hand and on-order inventories of supplies funded by other appropriations and funds are considered as contributed capital as of the date when management responsibility for the items is undertaken.

6. Capitalization. The process whereby the Fund assumes management responsibility and ownership without reimbursement for inventories financed from other DoD appropriations or funds.

7. Commitment. A firm administrative reservation of funds, based upon firm procurement directives, orders, requisitions, authorizations to issue travel orders, or requests which authorize the recipient to create obligations without further recourse to the official responsible for certifying the availability of funds. The recording of a commitment reserves funds for future obligations.

8. Contingency Retention Stock. That portion of the quantity of an item excess to the Approved Acquisition Objective and for which there is no predictable demand or quantifiable requirement and which normally would be allocated as potential reutilization stock, except for a determination that the quantity will be retained for possible contingencies.

9. Cost of Goods Sold (COGS). COGS is the value of the items sold at the standard or exchange price respectively. This matches the sales revenue in one period with the transactions affecting costs, which may have occurred in several previous periods. COGS is not affected by surcharge rates, obligations for replenishment, or net outlays. COGS is the essential baseline to establish prices.

10. Cost Recovery Elements /Surcharges. Factors added to the acquisition cost or repair cost price of an item to arrive at the customer's standard or exchange price Cost Recovery Elements/Surcharges will include: (1) transportation deliveries from production site to points of use or storage; (2) inventory obsolescence and loss, for the costs of pilferage, damage, deterioration, physical inventory shortages and excess; (3) inventory maintenance; (4) supply operations support costs; (5) inventory augmentation; (6) depreciation; (7) cash factor; and (8) DLR carcass attrition costs, if applicable.

11. De-capitalization. The transfer of Fund inventories to other appropriations or funds without reimbursement.

12. Demand. Is an indication of a requirement (requisition, request, issue, repairable generation, etc.) for issue of serviceable material. Demands are categorized as

either recurring or nonrecurring and are also referred to as orders. Demands for repairable items should indicate whether or not a carcass will be returned.

13. Direct Appropriations. Amounts appropriated by the Congress to the Fund for war reserve material, Defense Commissary Agency, or other purposes.

14. Economic Retention Stock. That portion of the quantity of an item greater than the Approved Acquisition Objective determined to be more economical to retain for future peacetime issue than to dispose and satisfy projected future requirements through procurement or repair. To warrant economic retention, items must have a reasonably predictable demand rate.

15. End of Period (EOP). The last day of a specified fiscal year, normally September 30, used to determine the closing status of resources.

16. Exchange Price (EP). This is the price charged to customers exchanging a repairable item (DLR) for a serviceable one (new or repaired). Equates to the latest repair price plus wash out costs per item plus the surcharges necessary to recover other operating costs in the supply management activity group.

17. Expendable Supplies and Material. Supplies which are consumed in use, such as paint, fuel, cleaning, preserving materials, surgical dressing, drugs, and medicines, etc., or which lose their identity in use, such as spare parts, etc. They are sometimes referred to as consumable supplies and material.

18. Initial Spare and Repair Parts. Those spares and repair parts introduced through the provisioning process to sustain material systems programmed operations until requirements are forecast based on actual demands for item replenishment using obligation authority.

19. Insurance Item. A non-demand-based stocked essential item for which no failure is predicted through normal usage. However, if a failure were to be experienced or a loss occur through accident, abnormal equipment or system failure, or other unexpected occurrence, lack of replacement would seriously hamper the operational capability of a weapon system.

20. Inventory (Supply). An aggregation of material (supplies, equipment or end items) which are maintained for the primary purpose of issue to replace a failed, lost, or consumed item, or to provide initial stockage or stock replenishment to supported or supporting units or activities.

a. Consumer Level of Inventory: An inventory, usually of limited range and depth, held only by the final element in an established supply distribution system for the sole purpose of internal consumption. Inventory at the consumer level is normally no longer considered Fund inventory.

b. **Intermediate Level of Inventory:** An inventory between the wholesale and consumer levels, regardless of funding source.

c. **Wholesale Level of Inventory:** Inventory, regardless of funding sources, over which the inventory manager at the inventory control point level has asset knowledge and exercises unrestricted asset control to meet worldwide inventory management responsibilities.

d. **Inventory Augmentation.** A growth in inventory beyond initial stockage levels that is not demand based. Costs may be recouped through a cost recovery element or by direct appropriations.

21. Inventory Cost Categories

a. **Operating Costs,** other than initial purchase of war reserve material, consist of orders placed, contracts awarded, and similar transactions which legally encumber the government to a specified future outlay of funds. Provisioning may or may not be considered an operating cost based on the circumstances within an activity.

b. **Mobilization Costs** cover fiscal year New Budget Authority to procure items with funds provided specifically for war reserve stocks. These quantities of material are required to support approved force mobilization objectives. The approved force mobilization objective is the quantity required, in addition to peacetime assets normally available on any given date, to equip and support the approved force structure in accordance with current Defense Guidance.

c. **Numeric Retention Stock.** Formerly, the quantity of an item in excess of all identified requirement objectives but for which disposal is currently infeasible or uneconomical or for which a management decision has been made to retain stock in the supply system. This category of stock is no longer valid.

d. **Historic Cost.** The price paid for an item at the time it was purchased from a supplier.

e. **Replenishment Cost.** The current price of an item from a vendor that will result in a cash outlay.

f. **Latest Acquisition Cost (LAC).** Formerly defined as the price paid for each item the last time it was purchased from a supplier (latest invoice price), unless the last purchase is not a representative purchase and does not include any surcharges or inflation factors. This category of cost is no longer valid.

h. **Moving Average Cost:** A method of costing inventory that continuously updates the unit cost of inventory on hand based on the average cost of all purchases made to date and records cost of inventory sold at the latest moving average cost.

i. Numeric Stockage Objective (NSO) Item. A non-demand-based, stocked, essential item for which, although failure may be predicted, the probability of demand is so low that it does not meet the stockage criteria at a given activity and, as a demand-based item, would not be stocked. Since the lack of a replacement item would seriously hamper the operational capability of a weapon or weapon systems, the item is therefore stocked; using direct appropriations, as non-demand-based. Also included in this category are:

j. Items needed to support particular programs of a nonrecurring or sporadic nature (e.g., set assembly, non-repetitive overhaul programs) where re-procurement is not required once the particular program has been completed.

k. Items that are procured on a life-of-type basis or which are “bought out” at the termination of a production program.

l. Items that are not fully consumed during a one-time or non-repetitive program but which should be retained for possible future need on a similar program.

22. Other War Reserve Material Requirements. The total war reserve material requirement less the sum of the pre-positioned war reserve requirements.

23. Outlays. Checks issued or other payments made by the government for goods and services received. Gross outlays are equal to the cumulative amount of disbursements made for the fiscal period to date. Net outlays are equal to gross outlays less the cumulative amount of collections received for the fiscal period to date.

24. Peacetime Operating Level of Supply. The quantities of material required to sustain operations in the interval between requisitions and the arrival of successive shipments. These quantities should be based on the established replenishment period (monthly, quarterly, etc.). This is also referred to as the Pipeline, Undelivered Orders, or Due ins from Procurement and Repair.

25. Pre-positioned War Reserve Material Requirement (PWRMR). That portion of the war reserve stocks required to be on hand on M-Day which approved Defense Guidance dictates be reserved and/or positioned at or near the point of planned use or issued to the user prior to hostilities, to reduce reaction time and to assure timely support of a specific force/project until replenishment can be effected.

26. Price Stabilization. The policy through which the standard price of each cataloged item shall remain constant throughout each fiscal year except for correction of errors.

27. Product Cost Growth Factor (PCGF). The amount of price growth realized from suppliers above the moving average cost (MAC). $MAC + PCGF = \text{Replenishment Costs}$.

28. Production Lead Time. The time interval between the letting of a contract or the placing of an order and the first significant receipt into the supply system of material purchased as a result of such action.

29. Provisioning Item. Spares and repair parts required as both demand and non-demand-based levels in the supply system to support new fielding of end items.

30. Provisioning Item (Outfitting). That portion of Provisioning consisting of items for which a sale is anticipated to an appropriated outfitting (buy-out) account. Direct appropriations are required to establish inventory levels for these items until requirements can be forecast based on actual demands for their replenishment using obligation authority.

31. Reclassification. The transfer of assets between inventory strata.

32. Repair Cycle Level. The quantity of repairable items required to sustain operations during the repair cycle that commences when a maintenance replacement takes place and ends when the unserviceable asset is returned to stock in a serviceable condition. This includes such stages as removed, awaiting shipment, in transit, in pre-repair screening, in process of repair, and being returned to serviceable stock. Any extraordinary awaiting-parts delays and any intentional extended-transit, storage, or repair-process delays should be excluded from the repair cycle.

33. Repairable Item. An item of supply subject to economical repair and for which the repair (at either depot or field level) is considered in satisfying computed requirements at any inventory level.

34. Requisitioning Objective. The maximum quantities of material to be maintained on hand and on order to sustain current operations and core war reserve. It will consist of the sum of stocks represented by the operating level, safety level, and the order and shipping time or procurement time, as appropriate.

35. Retail Inventory. Supplies/material held below the wholesale level (e.g., the intermediate and consumer levels of inventory).

36. Replenishment Spare and Repair Parts. Demand based spare and repair parts required re-supplying current inventory levels. Inventory levels may increase above initial stockage when there is a concurrent increase in demands (ramp-up). Fewer inventories will be required when there is a decrease in demand levels (ramp-down). These include both repairable and consumable parts in support of fielded items.

37. Safety Level of Supply. The quantity of material required to be on hand to permit continuous operations in the event of minor interruption of normal replenishment or unpredictable fluctuations in demand.

38. Standard Price. The price customers are charged which, for DoD ICP managed item (excluding subsistence), remains constant throughout a fiscal year except for the correction of significant errors. The standard price is computed based on various factors which include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. Customers are ultimately charged exchange price for DLRs unless the carcass is not returned. If the carcass is not returned, the customer is charged the full standard price.

39. Stockage Objective. The maximum authorized quantity of material on hand to sustain current operations. It consists of the sum of stock represented by the operating level, the safety level, the repair cycle level, and authorized additive levels.

40. Stratification Process. A uniform portrayal of requirements and asset application that is a computer-generated simulation of actions causing changes in the supply position, e.g., procurement, repair, receipt, issue, terminations, and disposal of material.

41. Unfunded Requirement. The difference between the spare and/or repair parts requirement computed in accordance with DoD Policy (such as, DoDI 4110.24, DoDI 4140.39, and DoDI 4140.24) and the amount of that requirement that is funded.

42. Un-obligated Commitments. Amount of commitments incurred this fiscal year to date which have not resulted in obligation at the end of the report period.

43. Variability Target. The projected amount of additional cost authority reflected on the SM-1 (Supply Management Summary) to allow supply activities to respond to variances in costs and/or changes in customer demands during the execution year.

44. War Reserves. War reserves are stocks of material amassed in peacetime to meet the increase in military requirements forecasts contingent on an outbreak of war. War reserves are intended to provide the interim support essential to sustain operations until re-supply can be effected.

D. Budget Submission Formats are provided in Section 0904

★ 090204. Non-Supply Activity Groups

A. The following statements/tables/exhibits are prescribed for the remaining activity groups of the Fund other than Supply Management. Exhibits Fund-7a and Fund-7b are to be included for all activity groups that use direct labor hours in their rate computation. Exhibit Fund-8b is to be included only for the Transportation activity groups.

| | Program Budget Review | Backup to Pres Budget | President's Budget | Execution Review |
|---|-----------------------|-----------------------|--------------------|------------------|
| Fund-1 Summary of Price, Program, and Other Changes | yes | yes | no | no |
| Fund-1a Details of Price, Program, and Other Changes/ (OP-32) (1) | yes | no | no | no |
| Fund-2 Changes in Cost of Operations | yes | no | yes | no |
| Fund-3 Labor Cost Breakdown | yes | no | no | no |
| Fund-5 Total Cost Per Output Summary | yes | yes | no | no |
| Fund-6 Depot Maintenance 6% Capital Investment Plan (Depots only) | yes | yes | yes | no |
| Fund-7a Summary of Source of Revenue | yes | yes | no | no |
| Fund-7b Customer Rate Computations | yes | no | no | no |
| Fund-8b Air Mobility Command (USTRANSCOM only) | yes | no | no | no |
| Fund-9a Capital Investment Summary | yes | no | yes | no |
| Fund-9b Capital Investment Justification | yes | no | yes | no |
| Fund-9c Capital Budget Execution | yes | no | yes | no |
| Fund-11 Source of Revenue (1) | yes | no | yes | no |
| Fund-11a Carryover Reconciliation | yes | no | yes | no |
| Fund-11a Carryover Ceiling Calculation (Depots only) | yes | yes | no | no |
| Fund-13 Cash Management Plan (2) | yes | yes | no | no |
| Fund-14 Revenue and Expenses (1) | yes | no | yes | no |
| Fund-15 Fuel Data (3) | yes | yes | no | no |
| Fund-16 Material Inventory Data | yes | no | yes | no |
| Fund-19 Military Personnel by Average End Strength | yes | no | no | no |
| Fund-22 Summary of Base Support | yes | no | no | no |
| Fund-24 Summary of Personnel Data | yes | no | no | no |

| Program Budget | Backup to Review | President's Pres Budget | Execution Budget | Review |
|---|------------------|-------------------------|------------------|--------|
| Fund-26 Revenue and Expense Phasing Plan (2) | yes | yes | no | no |
| Fund-28 Execution Performance Analysis (2) | no | no | no | yes |
| Fund-30 Unutilized/Underutilized Plant Capacity | yes | yes | no | no |
| OP-8 Civilian Personnel Costs | yes | yes | no | no |
| OP-32 Operation & Maintenance | yes | yes | no | no |
| PB-15 Advisory and Assistance Services | yes | yes | no | no |
| PB-22 Headquarters Cost | yes | yes | no | no |

(1) Electronic submission also required

(2) OUSD (C) RF electronic format required

(3) USTRANSCOM must submit separate Fund 15 exhibits for its Commercial and Military airlift augmentation efforts.

(4) Formats and Instructions are in Volume 2A Chapter 3 for the OP-8 exhibits and Volume 2B Chapter 19 for the PB-15 and PB-22 exhibits.

Note: The Fund 9d, 25, 27 and 29 exhibits are no longer required.

B. Definitions Used in Non-Supply Activity groups

1. Maintenance Depot. Industrial facilities of the Defense Working Capital Funds including; Army and Marine Corps Multiple Commodity Maintenance Depots, Ordnance Depots, Arsenal, Navy and Air Force Aviation Depots, and DLA Industrial Plant Equipment Repair Sites.

2. Direct Labor Hour Rate. The fully burdened cost per direct labor hour is used as the initial basis for establishing stabilized rates. The direct labor hour rate is computed by dividing the sum of all labor, non-labor, and material direct, indirect, general and administrative expenses projected to be incurred by the depot (or other activity group) during the fiscal year, by the total number of direct labor hours (or other outputs) anticipated to be accomplished during the fiscal year.

3. Direct Labor Hour (DLH). DLHs, sometimes referred to as Direct Product Standard Hours, are the number of hours required to perform the direct work on a product, or to perform a billable service for customers. Direct labor hours generally include the hands-on maintenance, repair, overhaul, test, and related direct production effort that follows the established sequence and content of work necessary to accomplish the billable job. Direct Labor Hours do not include the support work or man-hours identified as either indirect or general and administrative in nature. DLHs are estimated for budget purposes, by product or service, based

on industrial or management engineering standards developed using time, method, and motion studies, historical usage averages, or professional estimating and evaluation (E&E) techniques.

4. Fixed Price Catalogs. Depot Maintenance activity groups may maintain a catalog of products and services (major end items, components, depot level repairable, modification kits, etc.) with their associated rework, repair, overhaul, installation, etc., based on the Standard Depot Level Maintenance (SDLM) or Planned Depot Maintenance (PDM), work package Direct Labor Hours (DLHs). The DLHs associated with the product or service multiplied by the stabilized composite rate for a fiscal year constitutes the firm fixed price for the catalog item. Catalogs may be maintained in hard copy or in electronic data bases accessible to customers.

5. Total Cost of Goods Sold. Refers to the total costs incurred in the operating budget of the activity group associated with the revenue planned to be recognized for the budgeted fiscal year. This is computed by taking actual expenses plus or minus the year to date change in Work-In-Process (WIP).

6. Carryover. Refers to the dollar value of work that has been ordered and funded (obligated) by customers but not yet completed by working capital fund activities (Depot Maintenance, Industrial Operations and Research & Development Activity Groups) at the end of the fiscal year. Carryover consists of the unfinished portion of work accepted but not yet completed.

C. Component Estimates of Rates. Each Activity group will include proposed new customer order rates for each budget year in accordance with paragraph 090104. The rates will be established during the budget review process and will remain stabilized through the execution year.

1. Total direct labor hours (DLHs) required to accomplish the budget year's work program will be identified by the Component in their Program Budget Review submission. The work program is the total number of DLHs planned to be executed in support of known and projected customer requirements during execution of the budget.

2. Total costs estimated to be incurred in execution of this work load will also be projected. This process should include application of general inflation, pay raise, and other inflation or OUSD (Comptroller)-directed price adjustments, as specified in the OUSD (Comptroller) budget formulation Budget Call. The sum of all these costs (including supplies, materials, pay, depreciation, and other charges, etc.) is the estimate of the total cost of goods sold.

3. Customer requirements must be projected and separately identified to include: current (on hand) unfilled customers orders expected to be executed during the budget year (carry-in or backlog), and work in process that will be completed; new orders anticipated to be accepted and executed during the budget year; and orders anticipated to be accepted but will not be executed during the year (anticipated carry-over).

a. Carryover calculation. Since the FY 2004 budget submission, the approved amount of workload carrying over to subsequent fiscal years is linked to the outlay rate of the source appropriation as published in the Department of Defense Financial Summary Tables (Part One, Tab J).

(1) The revised methodology applies first year outlay rates to year end levels of funded carryover. The metric is tailored to the workload of each business area and provides visibility into the elements of carryover. Additionally, the new metric allows for an analytically based approach that holds working capital fund activities to the same standard as general fund execution and allows for more meaningful budget execution analysis. Carryover metrics exclude non-federal, non-DoD, Foreign Military Sales, and Base Realignment and Closure related work, as well as work-in-progress from the carryover calculation.

(2) For Navy R&D activities which host a Major Range & Test Facility Base (MRTFB), those institutional costs associated with the MRTFB support are also excluded from the carryover calculation.

(3) For Army Ordnance activities, in addition to a.1 above, the carryover calculation also includes the use of the 2nd year procurement outlay rate. The addition of the 2nd year procurement outlay rate now aligns production completion rates with the source appropriation as published in the Department of Defense Financial Summary Tables. This recognizes that multi-year appropriations often fund manufacturing or recapitalization of equipment requiring longer lead times and higher standards of repair.

b. Once year end carryover balances, less excluded workload, are determined, appropriate outlay rates are applied to the carryover workload and a weighted average outlay rate is identified (unless approved in writing from the Director of Revolving Funds, the outlay rates used for this calculation must come from the DoD Financial Summary Tables, Part One, Tab J). The weighted outlay rate is then applied to the total new orders received to determine what portion of the workload should have been expensed in that fiscal year, and conversely what percentage is allowable carryover. As an example, if the weighted outlay rate is identified at 59% and the total of new orders received is \$100 million, then it is reasonable to expect that \$59 million should have been expensed in the current year and the remaining \$41 million, or 41% of the total new orders received, would be identified as the maximum allowable carryover.

For the 2nd Year Procurement outlay rate, a weighted outlay rate, which includes the sum of the 1st and 2nd year rates, is applied to the new orders from the previous year to determine what portion of the workload should have been expensed in that fiscal year and what percentage is allowable carryover. The example in paragraph b. still applies with the exception that two different weighted outlay rates will now be used to calculate the allowable carryover (one for prior year Ordnance procurement workload and one for all other appropriations).

c. The reporting of carryover will no longer be addressed on the Fund 7a, Summary of Sources of Revenue, but will be accomplished through the

establishment of a new budget exhibit, the Fund 11-a, "Carryover Reconciliation". Format and preparation instructions are provided in Section 090402. Activities whose actual carryover balance exceeds the computed allowable carryover in any year are required to provide written justification as part of the budget submission.

4. Work load mix, availabilities, and production schedules must be assessed, along with any other factors that may impact program outputs such as policy changes, productivity initiatives, planned work load competitions, plant capacity, and other factors. Based on this analysis the total anticipated work load both by major work load category (or product), and the associated Direct Labor Hours needed to accomplish this work during the program year will be identified and reported.

5. Total costs required to execute the planned program to produce the outputs in the approved execution program will be identified and reported in budget exhibits, with significant changes from the prior year highlighted in the Exhibit Fund-2, Changes in the Costs of Operations.

6. To determine program financing requirements and initial rates, the estimate of the total cost of goods sold will be divided by the programmed output (total Direct Labor Hours), to identify an initial cost per direct labor hour.

7. The number of DLHs associated with carry-in work load (unfilled customer orders on hand at the start of the year) times the prior year stabilized rate (rate in effect when the carry-in orders were accepted) will be identified. Since this work load is already financed, the DLHs and associated dollars will be subtracted from the FY total DLHs and Cost identified in step 5 above.

8. The orders anticipated to be accepted but not recognized as revenue during the fiscal year (the carry-over) will be identified in the same manner as the carry-in orders. The initial cost per direct labor hour for these carry-over DLHs (set in step 5 above) will be inflated in accordance with OUSD (Comptroller) guidance for the following fiscal year when the work will actually be executed. The value of this additional inflation cost for these carry-over DLHs will be added to the total program base cost identified in step 4.

9. The revised base cost from step 7 above, plus the additional inflation cost for carry-over orders will be divided by the total number of DLHs associated with new program orders planned to be accepted whether scheduled to be worked or carried-over to the next fiscal year (all orders planned for acceptance or execution in the fiscal year program except unfilled customer orders that were carried-in to the fiscal year). The resulting cost per direct labor hour should be used as the basis for the DoD Components' proposed initial rate. The proposed initial rate is adjusted for prior year gains or losses necessary to achieve an end-of-year AOR of zero for the budget year. The end result is a proposed New Customer Order Stabilized Rate.

10. Components may develop, report, and use subsidiary rates (engine rate, airframe rate, missile rate, etc.) as long as these subsidiary rates are rolled into a single composite rate for activity group rate setting.

090205. Submission Requirements

A. All businesses, except Supply Management, operating within the Fund or under Unit Cost will provide a Summary by Component in table form. For part I, each Component will provide a summary table for each of its Activity Groups.

1. Component Activity Group Narrative Analysis. - For each activity group, the Component will submit a narrative analysis that, as a minimum, addresses the following areas: a general description of the activity group, its outputs and customers, including performance and quality metrics. Discuss any planned changes in the activity group make up, location or product lines. Display cash and net outlays, revenue and expenses, operating results, full time equivalents and end strength (civilian and military), unit costs and rates and other key indicators in tabular form. Provide short explanatory bullets where significant changes occur.

2. The analysis should focus on the changes from year to year and how these changes are related to work load and productivity trends; an analysis of any special business-type schedules requested in the Budget Call letter; and a discussion of work load and manpower trends, productivity initiatives/cost reductions, unit costs, and customer prices incorporated in activity group budgets.

B. Section 090203 listed submission requirements for Supply Management and Section 090204 listed submission requirements for the remaining activity groups.

C. Budget Submission Formats are provided in Section 0904

D. All DWCF program and budget review submissions will be submitted electronically to the OUSD (Comptroller) Directorate for Program and Financial Control. Any additional submission instructions will be provided in the Budget Call Letter.

0903 CONGRESSIONAL JUSTIFICATION/PRESENTATION

090301. Purpose

This chapter provides the policies and procedures to guide the development of budget justification and supporting narrative to be submitted by Components to the OUSD (Comptroller) in development of congressional justification material. Each Component will prepare a separate volume including their executive overview, operating and capital budgets for direct submission to the Congress following review and approval by the OUSD (Comptroller) and the office of Management and Budget. The Defense-wide volume material will be prepared by each Defense Agency and submitted to OUSD (Comptroller), Revolving Funds Directorate, for review and approval prior to submission to DLA. DLA, with appropriate support from the

submitting organization, will assemble the volume containing Defense-wide businesses and supervise its printing and distribution.

090302. Organization of Justification Books

A. Background

1. The Program Budget Review focuses on a set of business-type schedules as a means of evaluating progress towards meeting cost and productivity targets, developing (with Component financial management personnel) unit cost goals by activity group and setting prices for the budget year(s).

2. The Budget Call for budget justification and supporting narrative will request that selected Fund schedules be updated for inclusion in congressional justification material.

3. All data submitted for the President's budget should be consistent with approved costs, work load and productivity assumptions, and approved by the appropriate Revolving Fund Directorate analyst.

4. The justification books submitted to Congress are to be unclassified, will be in one volume organized into three sections: Component Overview, Operating Budget, and Capital Budget. All Congressional Budget Material will be submitted electronically and be available on the Services unclassified Web Site. Defense Working Capital Fund Activity Groups (DLA, DeCA, etc.) will submit an electronic version of their budget to OUSD (Comptroller) Program and Financial Control Directorate.

5. Justification books should follow the guidance contained in the DoD Financial Management Regulation, Volume 2, paragraph 010401 for preparation of budget materials to Congress.

6. Financial exhibits required by Chapter 9 will agree with the Annual Financial Statements required by the Chief Financial Officers Act of 1990. Proposed deviations from data reported on the Annual Financial Statements are to be coordinated with the Revolving Funds analyst responsible for the affected activity group.

B. Component Operating and Capital Budgets

1. Component Overview: This volume summary section and other Component justification will be submitted to Congress during February. The Component summary will consist of individual Component inputs in the following main sections:

a. Component Activity Group Narrative Analysis - For each activity group, the Component will submit a narrative analysis that, as a minimum, addresses the following areas: a general description of the activity group, its outputs and customers, including performance and quality metrics. Discuss any planned changes in the activity group make up,

location or product lines. Display cash and net outlays, revenue and expenses, operating results, full time equivalents and end strength (civilian and military), unit costs and rates and other key indicators in tabular form. Provide short explanatory bullets where significant changes occur.

The analysis should focus on the changes from year to year and how these changes relate to work load and productivity trends; an analysis of any special interest items as requested by OUSD (Comptroller) and a discussion of work load and manpower trends, productivity initiatives/cost reductions, unit costs, and customer prices incorporated in activity group budgets.

b. Budget Statements - The Component will submit summary budget statements requested to support the external budget submission.

c. Special Schedules - For the Supply Management activity groups, the narrative must include a section on work load and economic assumptions. These assumptions must include the following data for the prior, current, and budget fiscal years: items managed (#), requisitions received (⌘), receipts (#), issues (#), contracts executed (#), purchase inflation (%), and supply material availability (%).

2. Component Operating Budget: For each activity group, the Component will submit a narrative description that explains the activity group as well as the budget statements indicated in Section 0904.

0904 ACTIVITY GROUP ANALYSIS FORMATS

090401. Purpose

The formats provided on the following pages reflect guidance presented in previous sections of this chapter. These formats should be adhered to unless modified in a submission budget call.

★ 090402. Defense Working Capital Fund Exhibits

SM-1 Supply Management Summary49
 SM-3a Operating Budget51
 SM-3b By Weapon System56
 SM-4 Inventory Status57
 SM-5a Wholesale Only - Surcharge Calculation61
 SM-5b Customer Price Change65
 SM-6 War Reserve Material66
 SM-16 Total Cost per Output Summary68
 Fund-1 Summary of Price and Program Changes – Costs69
 Fund-1a Details of Price and Program Changes - Costs71
 Fund-2 Changes in the Costs of Operation77
 Fund-3 Labor Cost Breakdown83
 Fund-5 Total Cost Per Output Summary.....85

- ★Fund-6 Depot Maintenance 6% Capital Investment Plan82
- Fund-7a Summary of Sources of Revenue.....89
- Fund-7b Customer Rate Computations91
- Fund-8b Air Mobility Command Common User Services93
- ★Fund 9a Activity group Capital Investment Summary.....95
- Fund-9b Activity group Capital Purchase Justification95
- Fund-9c Capital Budget Execution102
- Fund-11 Source of New Orders & Revenue103
- Fund-11a Carryover Reconciliation.....105
- Fund 13 Cash Management Plan.....108
- Fund-14 Revenue and Expenses110
- Fund-15 Fuel Data.....112
- Fund-16 Material Inventory Data.....114
- Fund-18 Fund Summary.....115
- Fund-19 Military Personnel by Average End Strength.....116
- Fund-22 Summary of Base Support117
- Fund-24 Summary of Personnel Data118
- Fund-26 Revenue and Expense Phasing Plan119
- Fund-28 Execution Performance Quarterly Analysis120
- Fund 30 – Underutilized Plant Capacity122
- OP-8 Part 1, Civilian Personnel Costs*
- OP-8 Part 2, Reimbursable Civilian Personnel Costs*
- PB-15 Advisory and Assistance Services*
- PB-22 Headquarters Cost.....*

Note: The SM-3c, SM-10 Fund 9d, 25 and 27 exhibits are no longer required.

*Formats and Instructions for these exhibits are in Volume 2A Chapter 3 for the OP-8 exhibits and Volume 2B Chapter 19 for the PB-15 and PB-22 exhibits.

FY ____ BUDGET
____ SUPPLY MANAGEMENT BY DIVISION
(DoD Component)
(Dollars in Millions)

| | | | | Obligation Targets | | | | | |
|----------|---------------------|---------------------|-----------|--------------------|--------------|-------|-------|--------------------|--------------|
| Division | Peacetime Inventory | Net Customer Orders | Net Sales | Operating | Mobilization | Other | Total | Variability Target | Target Total |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

INSTRUCTIONS FOR PREPARATION OF
SUPPLY MANAGEMENT SUMMARY (EXHIBIT SM-1)

The purpose of the SM-1, Supply Management Summary by Division, is to provide summary justification for the Service or Defense Agency request. Instructions for preparation of SM-1 follow:

1. Prepare the SM-1 for each year being reviewed.
2. Dollars in millions and tenths of a million.
3. Both approved and proposed should be shown if they differ for the following:
 - Peacetime Inventory
 - Net Customer Orders
 - Net Sales
 - Obligation Targets
 - Other Obligation Target includes appropriated dollars for any purpose other than mobilization.
 - Variability Target.
 - Target Total.

| FY ____ (DoD Component) | BUDGET | DIVISION | | | DATE | |
|--|--------|-----------------------|------|------|------|------|
| | | (Dollars in Millions) | | | | |
| | | FY__ | FY__ | FY__ | FY__ | FY__ |
| SUPPLY MANAGEMENT Operating Budget | | | | | | |
| A. INVENTORY REQUIREMENT (Standard Price) | | | | | | |
| 1. Operating Requirement | | | | | | |
| a. New Customer Orders (Net) | | | | | | |
| b. Unfilled Orders (BOP) | | | | | | |
| c. Operating Objectives | | | | | | |
| d. Other, including Provisioning (List) | | | | | | |
| e. Total | | | | | | |
| 2. Mobilization | | | | | | |
| 3. Other | | | | | | |
| 4. Total Inventory Requirements | | | | | | |
| | | | | | | |
| B. APPLICABLE RESOURCES (Standard Price) | | | | | | |
| 1. ON HAND BOP | | | | | | |
| 2. CHANGES DURING PERIOD | | | | | | |
| 3. ON ORDER BOP | | | | | | |
| 4. TOTAL APPLICABLE RESOURCES | | | | | | |
| C. REQUIREMENT (Standard price) | | | | | | |
| 1. TOTAL REQUIREMENT (Standard price) | | | | | | |
| 2. SURCHARGES (-) | | | | | | |
| D. FUNDING REQUIREMENT (At Cost) | | | | | | |
| 1. FUNDING REQUIREMENT AT COST | | | | | | |
| 2. TRANSPORTATION COST (+) | | | | | | |
| 3. REPAIR COST (+) | | | | | | |
| 4. OTHER (List) | | | | | | |
| 5. TOTAL FUNDING REQUIREMENT | | | | | | |
| 6. UNFUNDED OPERATING REQUIREMENT | | | | | | |
| 7. UNFUNDED MOBILIZATION PROTECTABLE | | | | | | |
| 8. UNFUNDED PROVISIONING & OTHER PROTECTABLE | | | | | | |

| FY _____ (DoD Component) BUDGET SUPPLY MANAGEMENT Operating Budget (Continued) | DIVISION | | | | DATE |
|---|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | (Dollars in Millions) | | | | |
| | FY _____ | FY _____ | FY _____ | FY _____ | FY _____ |
| E. VARIABILITY TARGET (At Cost) | | | | | |
| F. OBLIGATION TARGET (At Cost) | | | | | |
| 1. OPERATING (Includes DLR repair) | | | | | |
| 2. PROVISIONING | | | | | |
| 3. OTHER | | | | | |
| 4. MOBILIZATION | | | | | |
| 5. TOTAL | | | | | |
| | | | | | |
| G. BASIS OF OPERATING OBJECTIVES (Standard Price) | | | | | |
| 1. SAFETY LEVEL | dollars | | | | |
| | days | | | | |
| 2. ADMINISTRATIVE LEADTIME | dollars | | | | |
| | days | | | | |
| 3. PRODUCTION LEADTIME | dollars | | | | |
| | days | | | | |
| 4. PROCUREMENT CYCLE | dollars | | | | |
| | days | | | | |
| 5. OPERATING LEVEL | dollars | | | | |
| | days | | | | |
| 6. REPAIR CYCLE | dollars | | | | |
| | days | | | | |
| 7. OTHER OBJECTIVES (List) | dollars | | | | |
| | days | | | | |
| 8. TOTAL OPERATING OBJECTIVES | | | | | |
| 9. NUMBER OF ITEMS MANAGED | | | | | |
| 10. MEASURE OF EFFECTIVENESS Percent Stock Availability (Fill Rate) Requisition Delay Time Quality Deficiency Reports (QDRs) QDR Processing Time Other (specify) | | | | | |
| 11. OPERATING TEMPO (Flying hours by aircraft type, tank miles, steaming days etc) | | | | | |
| H. NARRATIVE EXPLANATION (Indicate item number to which explanation applies. If more space is needed, attach additional pages.) | | | | | |

INSTRUCTIONS FOR PREPARATION OF
OPERATING BUDGET REQUIREMENTS (EXHIBIT SM-3a)

The purpose of the SM-3a, Operating Budget Requirements is to provide backup information to support the obligations. Instructions for preparation of the SM-3a:

1. Prepare an SM-3a for each supply management material division except for the Defense Logistics Agency and the Army, which may submit a consolidated statement for the retail divisions. An SM-3a is not required for a supply cost of operations division. For the requested columns for the current year, display estimated actuals. For budget year and budget year plus one display revised request.

2. Dollars in millions and tenths of a million except the Air Force Academy Division exhibits will be prepared in thousands.

3. See Section 090203, Supply Management, for definitions of inventory categories.

4. Operating Requirements (line A1E) should include the total requirements for new customer orders (demands), unfilled orders at the beginning of the period, operating inventory requirement (*pipeline*) to replace sales, and others (listed and explained as necessary) at standard price.

5. Mobilization Requirement (line A2) should be the funded requirement (*to include inventory on hand*) as of the end of the period. Show unfunded mobilization requirement on line D7.

6. Total Inventory Requirement (line A4) should be the total of lines A1E, A2, and A3.

7. Applicable Resources should be shown in Section B.

8. Requirement (Standard Price) is shown on line C1. Line C1 is line A4 minus line B4. Line C2 is the surcharges amount included in line C1.

9. Line D1, Funding Requirement at Cost, is line C1 minus line C2. It includes obligations plus commitments for inventory requirements. Lines D2 through D4 are other obligation requirements for non-inventory requirements. Line D5 is the total obligation requirement (the sum of D1 through D4). Line D6 is any unfunded operating requirement included in D5. (Explain in narrative.) D7 will reflect line 4C on SM-3C. D8 will reflect line 6B on SM-3a.

10. Line F5 is the total obligation target; line D5 minus lines D6 through D8 and E.

11. Basis of Operating Objectives. (Section G) This section contains an analysis in financial terms of peacetime on-hand and on-order objectives for the end of the past year, current year, and the budget year. Objectives (*pipeline*) will be based on subsequent fiscal year estimated demands, and will be constructed by element (e.g., safety levels, production lead-time, review cycle, repair cycle, and the like). Column 1 will reflect the actual end-of-period objectives for the past fiscal year.

The purpose of this exhibit is to portray statistically computed supply inventory objectives that will be used to test the reasonableness of the total inventory objectives computed by means of the simulation-of-buy stratification process. Substitute formats may be used provided they present substantially the same information, and if prior approval for substitution is obtained from the Director for Revolving Funds, OUSD (Comptroller).

The following is an explanation of specific entries.

a. Safety Level. (Days/Dollars) This entry will reflect the relationship between the dollar value of issues/transfers, and the dollar value of the safety level, to the average number of days of supply contained in the safety level. Requirements for numeric stockage objectives are excluded. Provision is made for more than one echelon of supply by permitting the safety level at the highest echelon to consider, in addition to issues, transfers to lower echelons. This section is applicable to both repairable and consumable items. The narrative should describe significant changes in safety level requirements or average days from one fiscal period to the next period.

b. Lead-time. (Days/Dollars) The requirement to support demands (requiring replacement through acquisition) over the acquisition lead-time period of procurement or order and ship time, depending on the echelon of supply, is included in this entry. No lead-time requirement is to be included for issues replaced through the repair cycle or for issues that will not be replaced. Therefore, these types of issues are subtracted from gross demands in the computation. The narrative should describe significant changes in lead-time requirements or average days from one fiscal period to the next period.

c. Procurement Cycle/Operating Level. (Days/Dollars) The procurement cycle applies to the first echelon of supply. This requirement supports demands from the end of the fiscal year until the next scheduled procurement. For each fiscal year it represents the dollar value of that portion of the procurement cycle which requires funding during that fiscal year. The operating level applies to the second echelon of supply. The operating level requirement support demands during the interval, between arrivals of successive replenishment shipments. Only one-half of the dollar value of the operating level requirement is included here since it is assumed that on the average one-half of this requirement would be on order at any given period in time.

No procurement cycle or operating level requirement is to be included for issues replaced through the repair cycle. The narrative should describe significant changes in procurement cycle/operating levels or average days from one fiscal period to the next period.

d. Repair Cycle. (Days/Dollars) This entry will consist of the requirement for material to be on hand at the end of the fiscal year to accomplish repair operations during the repair turnaround period. This will include the time interval required to generate, through returns, sufficient stocks of an item to warrant an economical repair work order (accumulation time), and the time interval between approval of a work order for repair until the item is reclassified as serviceable (repair lead-time). The repair cycle will consist of the time interval between pickup of the unserviceable item on inventory control records and the time when the item is reclassified as serviceable. In those instances where asset visibility has been extended below the wholesale (first) echelon of supply, repair cycle requirements should include the full range of funding needed to support the visible portions of the repair cycle as first echelon requirements. A repair

cycle for both a first and second echelon of supply should be described in those cases where the requirements process does not comprehend all repair cycle requirements within the first echelon. The narrative should describe significant changes in repair cycle requirements or average days from one fiscal period to the next period.

e. Other Operating Inventory Objectives. (Days/Dollars) Objectives included here will be limited to those that cannot be properly assigned to any of the objectives identified above. The narrative analysis will include appropriate data to support each objective listed under this classification. This entry excludes requirements/funding for peacetime inventory augmentation or mobilization. The narrative should describe significant changes in other operating inventory objectives from one fiscal period to the next period.

f. Total Operating Inventory Objective. (Days/Dollars) This entry is the sum of total computed on-hand and on-order peacetime operating inventory requirements as of the end of each fiscal period. (Sums of lines G1 through G7.)

12. Number of Items Managed. (Item 9) should provide quantitative data and narrative explanation of major changes.

13. Measures of Effectiveness (item 10) should provide quantitative data and narrative explanation of major changes in measures of supply effectiveness. The following measures of effectiveness will be used:

a. Percent stock availability (fill rate)--The number of units requisitioned that are immediately available expressed as a percent of the total units demanded for the period. This percent should be shown for both the wholesale and the retail level of supply.

b. Requisition delay time--The length of time between the dates a supplier receives a requisition for an item and the date he ships the item. This should be expressed as a number of days for all stock funded items.

c. Quality Deficiency Reports (QDRs)--This measures the percentage of discrepancies in customer receipts in comparison to total item issuances by the ICP (in response to customer requisitions). It is a measure of customer satisfaction.

d. QDR Processing Time--This measures the time interval from ICP receipt of QDR to the issuance of corrective action. It is a measure of timeliness and customer satisfaction.

14. Operating Tempo Assumptions (item 11) should provide quantitative data such as flying hours (by aircraft type), steaming days, programmed overhauls, training days, etc., which may impact the supply management division's requirements.

15. Narrative. This provides a narrative explanation of significant changes. Also, this narrative provides a presentation of the adjustment required to the basic stratification tables prescribed by DoDI 4140.24 in order to adjust the basic data or to add data not considered. A detailed explanation of operating obligation requirements in excess of orders will be provided. The narrative should describe significant revisions or additions to the stratification tables that provide the basis for budget review and analysis. Individual statements for each budget submission should be prepared for each budget category.

INSTRUCTIONS FOR PREPARATION OF
OPERATING REQUIREMENT BY WEAPON SYSTEM (EXHIBIT SM-3B)

The purpose of the SM-3B, Operating Requirement by Weapon System is to provide a breakout of the operating obligation request by type of supply system action (procurement versus repair) and by weapon system or category.

1. For the OSD/OMB budget review, prepare SM-3B for each Service stock fund wholesale division that provides military spare parts. (This excludes fuel, medical/dental, subsistence, etc.). For each division, one Exhibit SM-3B should be prepared for each fiscal year (CY, BY1, and BY2).

2. Definitions.

a. Basic Replenishment consists of the sales of replacement spares *based on demands*.

b. Outfits are initial procurements to support a new weapon system or modification to an existing weapon system. This material is anticipated to be sold to an appropriated outfitting (buy-out) account that finances the lay-in of authorized allowances at the outfitting site.

c. Special Programs are instances where special management action is required, such as a Service initiative responding to abnormally high wear-out rates.

d. Basic Rework is repair obligations for sales replacement.

3. Dollars in millions and tenths of a million. Weapon systems, as defined by the applicable Service, may be aggregated into categories when individual systems are less than \$25 million. The Director for Revolving Funds will approve appropriate levels of aggregation. Common parts may be grouped by category such as radios or may be allocated to specific systems such as F-16 aircraft. Obligation authority requests for non-weapon system-related requirements such as reverse engineering and forging & casting must be separately identified.

4. Estimated data may be used and noted as such until accurate systems can be developed to provide accurate data.

5. This form will be prepared at replenishment cost or repair cost as appropriate.

6. The NMCRS (Non-Mission Capable Rate Supply) column will contain the percentage that a weapon system is not mission capable due to the lack of spare parts. You will report this rate target for each budgeted fiscal year.

Exhibit SM-3b By Weapon System

| FY _____ | BUDGET | DIVISION | | | DATE |
|--|--------|-----------------------|--------------|------------------------|--------------------|
| SUPPLY MANAGEMENT | | (Dollars in Millions) | | | |
| (DoD Component) INVENTORY STATUS | | TOTAL | MOBILIZATION | PEACETIME OPERATING | PEACETIME OTHER |
| 1. INVENTORY BOP | | | | | |
| 2. BOP INVENTORY ADJUSTMENTS | | | | | |
| a. RECLASSIFICATION CHANGE (Memo) | | | | | |
| b. PRICE CHANGE AMOUNT (Memo) | | | | | |
| c. INVENTORY RECLASSIFIED AND REPRICED | | | | | |
| 3. RECEIPTS AT STANDARD | | | | | |
| 4. SALES AT STANDARD | | | | | |
| 5. INVENTORY ADJUSTMENTS | | | | | |
| a. CAPITALIZATIONS + or (-) | | | | | |
| b. RETURNS FROM CUSTOMERS FOR CREDIT + | | | | | |
| c. RETURNS FROM CUSTOMERS WITHOUT CREDIT | | | | | |
| d. RETURNS TO SUPPLIERS (-) | | | | | |
| e. TRANSFERS TO PROPERTY DISPOSAL (-) | | | | | |
| f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-) | | | | | |
| g. OTHER (LIST/EXPLAIN) | | | | | |
| h. TOTAL ADJUSTMENTS | | | | | |
| 6. INVENTORY EOP | | | | | |
| 7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED) | | | | | |
| a. ECONOMIC RETENTION (Memo) | | | | | |
| b. CONTINGENCY RETENTION (Memo) | | | | | |
| c. POTENTIAL DOD REUTILIZATION (Memo) | | | | | |
| 8. INVENTORY ON ORDER EOP (Memo) | | | | | |
| 9. NARRATIVE (Explanation of unusual changes) | | | | | |

INVENTORY STATUS (EXHIBIT SM-4)

The purpose of the Inventory Status, SM-4 Exhibit is to show estimated inventory levels that will result from the proposed budgets and operating levels. Prepare SM-4 for each budget submission or review. This report shall be submitted for the prior fiscal year, the current fiscal year to date, the total current year, and the budget year for each supply management division. For each fiscal year, the form will be prepared at standard price. Line 7 will show the ending inventory converted to cost with discounting factors for repair cost and salvage value applied as appropriate. A consolidated summary for the total fund will be prepared for the OSD/OMB Review. The prior fiscal year and the current fiscal year to date exhibits shall reflect in column (1) the amount, at standard price, from supply management general ledgers used in preparation of fiscal and accounting reports. Amounts in columns (2), (3), and (4) may be statistically derived based upon related inventory stratification reports. Instructions for preparation of SM-4 Inventory Status at standard price are as follows:

1. Inventory, BOP at Standard Price. (Beginning of Period) Amounts of inventory on hand and in transit reported must equal amounts reported as of the end of the prior year. If not, explain any difference in a footnote. The Component must have title to all inventory listed here.

2. Inventory, Re-priced at New Standard Price. Stratified inventory, valued at new standard price. Memorandum entry for amount due to price change (line 2B) and for change due to reclassification (line 2A) will be shown. Reclassification nets to zero in total column.

3. Receipts. Add the amount of inventory value on which title has passed or will pass to the reporting supply management division during the period of the report. Use standard price.

4. Gross Sales. Material sold to customer during the period of the report at standard price.

5. Inventory Adjustments.

a. Capitalization (Net). Report at standard price the inventory value of material capitalized or de-capitalized during the period of the report. Show a net de-capitalization with (-) preceding value.

b. Returns from Customers for Credit. Show the cumulative amount of material returned from customers on which title has passed to the reporting supply management division during the period of the report for which credit has been given. For non-fuel returns use standard price. For fuel returns, show the cumulative amount of fuel returned based on market price valuation of current inventory.

c. Returns from Customers without Credit. Show the cumulative amount of material returned from customers on which title has passed to the reporting supply management division during the period of the report for which credit was not given. Use standard price.

d. Returns to Suppliers. Show as a negative number the cumulative amount of material returned to supplier during the period of the report. Use standard price.

EXHIBIT SM-4 Inventory Status

Page 2 of 3

e. Transfers to Property Disposal. Show the net amount of material transferred to/from the Defense Reutilization and Marketing Service (DRMS) on which title has been passed to DRMS. Use standard price.

f. Issues/Receipts without Reimbursement. Show the net cumulative amount of material issued or received without reimbursement during the period of the report. This item could include transfers from other divisions or material categories, etc., as required. Show net issued with (-) preceding value. Use standard price.

g. Other Adjustments. Identify and report the amounts of other adjustments to inventory. Include all other adjustments to inventory such as adjustments to record for physical inventory count and extraordinary losses (fire, weather). Explain with footnotes if necessary. Show (+) or (-) as appropriate. Use standard price.

h. Total. Add 5a through 5g.

6. Inventory EOP. (End of Period) Report the amount of inventory available as of the end of the reporting period. Includes all on hand, in transit, work-in-process, and other stocks on which title is rested in the reporting stock fund division. Use standard price.

7. Inventory EOP at Approved Valuation Method. Convert the inventory at standard price in line 6 to the approved accounting valuation. Then apply the discounting factors for repair cost and salvage value as appropriate. Provide breakout of Peacetime Other Inventory (column 4, line 6) value as economic retention, policy retention, potential excess, and other for OSD/OMB review only.

8. Inventory on Order, EOP at Cost. (End of Period) Report the amount of peacetime (operating and other) and mobilization undelivered orders (excluding in transit) for material outstanding at the end of the period.

Supply Management

Wholesale Only - Surcharge Calculation

| DIVISIONS/ICP | (\$M) PY | (% of Sales) PY | (\$M) CY | (% of Sales) CY | (\$M) BY1 | (\$ of Sales) BY1 | (\$M) BY2 | (% of Sales) BY2 |
|--------------------------------------|-------------|--------------------|-------------|--------------------|--------------|----------------------|--------------|---------------------|
| Composite | | | | | | | | |
| 1. Sales at LAC/LRC | | | | | | | | |
| 2. Surcharge Elements | | | | | | | | |
| a. Supply Ops Obs (May List) | | | | | | | | |
| b. Distribution Depot Obs | | | | | | | | |
| c. DLIS/DAASC/DRMS Obs | | | | | | | | |
| 1. Defense Logistics Information Ctr | | | | | | | | |
| 2. Defense Automated Address Sys Ctr | | | | | | | | |
| 3. Defense Reutilization & Marketing | | | | | | | | |
| d. DFAS Obs | | | | | | | | |
| e. Depreciation | | | | | | | | |
| f. Material Inflation Adjustment | | | | | | | | |
| g. Loss/Obsolescence Obs | | | | | | | | |
| h. Condemnation Obs | | | | | | | | |
| i. Transportation Obs | | | | | | | | |
| j. Capital Surcharge | | | | | | | | |
| k. AOR Recovery | | | | | | | | |
| l. Other (List) | | | | | | | | |
| m. Total Surcharge | | | | | | | | |

Exhibit SM-5a Wholesale Only - Surcharge Calculation

INSTRUCTIONS FOR PREPARATION OF EXHIBIT SM-5a
SURCHARGE COMPUTATION

The purpose of the SM-5a, Surcharge Computation Exhibit, is to show the surcharge elements for the wholesale divisions of supply management activity groups. This form will be prepared for each wholesale division. Each Service/Agency will provide a consolidated form for the sum of all wholesale divisions managed by that Service/Agency.

1. Components will provide the estimated surcharge and customer price changes on this form and the SM-5B, Customer Price Change that will be reflected in the upcoming budget years to OSD (Comptroller) by August 1. OSD (Comptroller) will review these estimates and distribute pricing factors to all Components in seven working days after receipt of these products.

2. On line 1 of the form, enter net sales at MAC/LAC/LRC as appropriate for that wholesale division. If the division is consumable, the sales at cost should be at acquisition cost. For example, in estimating FY 2000 costs, FY 1998 contract prices plus FY 1999 inflation should be used. If the division is repairable, separate exhibits should be prepared for sales at standard price and sales at exchange price. For the estimated sales at standard price, the net sales reflected should represent sales at LAC. For sales at exchange price, the net sales reflected should represent sales at latest repair cost (LRC). For example, in setting FY 2000 prices, FY 1998 repair prices plus approved depot rate changes should be used. The surcharge elements described below should be allocated to sales at standard price or sales at exchange price. There should also be a composite exhibit for repairables that sums both the sales at LAC and LRC and the surcharge elements. For the Current Year (CY) the sales at cost should reflect the number approved in the President's budget for that fiscal year. This is the only form in which President's budget approved numbers are required. All other forms will reflect actual, estimated actual or new projections as appropriate. For the BY1/BY2 the sales at cost should reflect the Components' best estimate of sales for that fiscal year including the approved inflation for that fiscal year only. On this line do not fill out the percent of sales column. For the composite supply management surcharge, the net sales at cost line will be comprised of a mix of consumable and repairable sales at LRC and LAC based on the estimated standard price and exchange price sales.

3. On line 2A enter obligations for supply operations approved in the President's budget for the CY less other supply operations obligations separately identified such as distribution depots obligations and transportation obligations. For the BY1/BY2 enter the estimated obligations for the budget year less obligations reflected under other categories. For the percent of sales column, divide the dollar amount in each category by the sales at cost in line one for each column. Inflation for each fiscal year should be included in the obligations cited for each surcharge element. At Component discretion, obligations for supply operations may be further broken down and displayed on this form.

4. On line 2B enter obligations to reimburse DLA distribution depots for receipts and issues approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations to reimburse DLA distribution depots for receipts and issues. Work with DLA as you develop your rates to identify the number of receipts and issues and the price DLA plans to charge in estimating the budget year amount. During the budget review these estimates will be adjusted based on the budget decisions.

5. On line 2C enter the sum of obligations to reimburse DLIS, DAASO, and DRMS approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations

Exhibit SM-5a Wholesale Only - Surcharge Calculation

Page 2 of 4

to reimburse DLIS, DAASO, and DRMS. List the amounts applicable to each of these organizations on lines 2C1, 2C2, and 2C3. Work with DLA as you develop your rates to determine the amount of funding required to support these activities in the budget year. During the budget review these estimates will be adjusted based on the budget decisions. Similar adjustment is required on the SM-5a to line 2c.1.

6. On line 2D enter obligations to reimburse DFAS for accounting services approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations to reimburse DFAS. Work with DFAS as you develop your rates to identify the obligations required to reimburse DFAS for the budget year. During the budget review these estimates will be adjusted based on the budget decisions.

7. On line 2E enter depreciation expense approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated depreciation expense.

8. On line 2F enter the obligational impact associated with the approved inflation related to material for the PY and CY. For the BY1/BY2 inflation should be calculated based on several factors: (1) actual experience over production lead-time preceding the CY setting of prices; (2) approved inflation over the production lead-time preceding the CY setting of prices; and (3) a combination of these two factors based on an estimation of the gain/loss resulting from the inflation estimate in prior year price setting. Inflation for supply operations and other surcharge elements should be included within the supply operations element listed above.

9. On line 2G enter the obligations required to replace items that have either been lost, pilfered, or have become obsolescent approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations associated with replacing items that have become lost or obsolete. If the carcass return rate is less than 100 percent for repairables, obligations required to replace items should be included in this category.

10. On line 2H, for repairable items only, enter the obligations required to replace items that have attrited through the repair process approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations associated with replacing items that have attrited in the repair process. Attrition for repairable items occurs on items that have been sold at exchange price. Subsequently, the items wash out in the repair process and some must be replaced.

11. On line 2I enter the obligations required for first and second destination transportation of secondary items approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations associated with transportation of secondary items. Obligations for first destination transportation of secondary items should only be included as a surcharge element if not included in the price of the item.

12. On line 2J enter the capital surcharge required to support disbursements for capital investments that will not be covered by depreciation approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated surcharge amount required to support disbursements for capital investments that will not be covered by depreciation.

13. On line 2L enter the amount added to prices to adjust for prior year gains/losses approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated surcharge

amount required to adjust prices for prior year gains/losses. This estimate for the BY1/BY2 must be based on actual PY results and revised CY estimates in the President's budget.

14. This form is not intended to limit the Component in the display of surcharge elements. The Other (List) category permits the Component to display other costs as required.

15. On line 2M sum up line 2A through 2L across the columns.

Note: 1/ Exclude direct reimbursable costs such as tenant base support. Identify the amount excluded by footnote on this form.

**SUPPLY MANAGEMENT
Wholesale Only
Customer Price Change**

| | CY | BY1 | BY2 |
|--|----------|-----|-----|
| 1. Net Sales at Cost | | | |
| 2. Less: Material Inflation Adj. | XXXXXXXX | | |
| 3. Revised Net Sales at Cost | XXXXXXXX | | |
| 4. Surcharge (\$) | | | |
| 5. Change to Customers | | | |
| a. Previous Year's Surcharge (%) | | | |
| b. This year's Surcharge and material inflation divided by line 3 above (\$) | | | |
| c. Percent change to customer | | | |

Line 1. On this line enter the net sales at cost for each fiscal year. The dollar value on this line should match the net sales at cost line on the composite line 1, SM-5A and include an estimate for material inflation.

Line 2. This line should have the dollar value of the material inflation adjustment applicable between the previous year and the fiscal year of the column, i.e., in the budget year column, enter the amount of material inflation included in line 1 between BY and CY.

Line 3. Subtract line 2 from line 1.

Line 4. Enter the surcharge (\$) for that fiscal year from the SM-5A, i.e., for the budget year enter the composite total surcharge for line 2M of the SM-5A.

Line 5a. Enter the percentage (decimal) of the previous fiscal year's surcharge, i.e., for the budget year enter the percentage (decimal) from the CY line 2M of the SM-5A.

Line 5b. Add together line 4 and line 2. Divide the total of line 4 and line 2 by line 3 to get the entry for this line.

Line 5c. Divide line 5b plus one by line 5a plus one and subtract one from the result.

Exhibit SM-5b Customer Price Change

**WAR RESERVE MATERIAL (WRM)
STOCKPILE (\$ in millions)**

| STOCKPILE STATUS | | | |
|--|-------|---------------|-----------|
| | Total | WRM Protected | WRM Other |
| 1. Inventory BOP @ std | | | |
| 2. Price Change | | | |
| 3. Reclassification | | | |
| Inventory Changes | | | |
| a. Receipts @ std | | | |
| (1). Purchases | | | |
| (2). Returns from customers | | | |
| Issues @ std | | | |
| (1). Sales | | | |
| (2). Returns to suppliers | | | |
| (3). Disposals | | | |
| c. Adjustments @ std | | | |
| (1). Capitalizations | | | |
| (2). Gains and losses | | | |
| (3). Other | | | |
| Inventory EOP | | | |
| STOCKPILE COSTS | | | |
| 1. Storage | | | |
| 2. Management | | | |
| 3. Maintenance/Other | | | |
| Total Cost | | | |
| WRM BUDGET REQUEST | | | |
| 1. Obligations @ cost | | | |
| a. Additional WRM Investment | | | |
| b. Replenishment/Repair WRM - Reinvestment | | | |
| c. Stock Rotation/Obsolescence | | | |
| d. Assemble/Disassemble | | | |
| e. Other | | | |
| Total Request | | | |

WAR RESERVE MATERIAL (WRM)
EXHIBIT SM-6

The purpose of the WRM exhibit is to notify Congress of the Departments intentions regarding the management of secondary item war reserves, especially when reclassifying WRM inventory into “protected status”. Stockpile status and costs sections show the current and budgeted amounts for the inventory and the costs associated with maintaining these levels. The budget request section notifies Congress of the amounts of obligations to be used to acquire or maintain war reserve items and quantities. Exhibit instructions are as follows:

1. Stockpile Status (Same instructions as the SM-4). Components should use the “reclassification” line to transfer inventory into the “protected” WRM category from “WRM Other”, if desired.

2. Stockpile Costs. WRM stockpile costs are those incurred in the working capital fund (WCF) to store WRM material, to manage WRM stocks to include a portion of total ICP costs (normally based on surcharges for purchased/repared items funded with the obligations identified below), and any other WCF costs to maintain the WRM inventory.

3. WRM Budget Request. This area addresses the amounts of obligation authority to be used specifically for WRM items or WRM quantities, whether from an appropriation, from cash balances, or from future sales.

a. Additional WRM Investment (normally reimbursed or funded by an appropriation). The amount of obligations to purchase or repair new or additional items that will increase the value of the total WRM inventory...

b. Replenish/Repair WRM Reinvestment. The amount of obligation authority to be used to replenish or repair WRM inventory that is sold, and the amount to be used to reinvest in new inventory with the funds from the sale of old inventory. Should normally be a one for one or dollar for dollar (excluding surcharges) replacement.

c. Stock Rotation/Obsolescence (separate from the stock replenishment from sales above). This is to replace stocks that are not sold but must be rotated or replaced periodically because of shelf life or obsolescence (can be related to an appropriation, if required, but normally maintains, and not increases, the value of the WRM inventory).

d. Assemble/Disassemble. The amount of obligations to be used to change the configuration of WRM inventory items.

e. Other. As appropriate.

Total Cost per Output Summary

Component: _____ **Activity Group:** _____

Date: _____

(\$ in Millions)

Gross Sales
PY CY BY1 BY2

Unit Cost
PY CY BY1 BY2

Total Cost
PY CY BY1 BY2

Output
Operating Budget

Cost per dollar of sales

Divide Total Cost by
Gross Sales

Cost equals obligations
(except capital budget)
plus depreciation,
and credit returns.

Exhibit SM-16 Total Cost per Output Summary

Summary of Price, Program, and other Changes (Operating Budget) - Costs

Component:
Activity group:
Date:
 (\$ in Millions)

| | <u>Cost of</u> <u>Opns</u> <u>FY PY</u> | <u>Cost of</u> <u>Opns</u> <u>FY CY</u> | <u>Price</u> <u>Growth</u> | <u>Program</u> <u>& Other</u> <u>Changes</u> | <u>Cost of</u> <u>Opns</u> <u>FY BY1</u> | <u>Price</u> <u>Growth</u> | <u>Program</u> <u>& Other</u> <u>Changes</u> | <u>Cost of</u> <u>Opns</u> <u>FY BY2</u> |
|---|---|---|-------------------------------|--|--|-------------------------------|--|--|
| Military Personnel Compensation (Fund-1a lines 010-050) | | | | | | | | |
| Civilian Personnel Compensation and Benefits (including FNIH personnel) (Fund- 1a lines 101-121) | | | | | | | | |
| Travel and Transportation of Personnel (Fund-1a lines 301-307) | | | | | | | | |
| Material & Supplies (For Internal Operations) (Fund-1a lines 401-422) | | | | | | | | |
| Equipment (Fund-1a lines 502-550) | | | | | | | | |
| Other Purchases from Revolving Funds (Fund-1a lines 601-699, except 633, 634, and 671) | | | | | | | | |
| Transportation of Things (Fund-1a lines 701-761) | | | | | | | | |
| Depreciation (Fund-1a lines 802-805) | | | | | | | | |
| Printing and Reproduction (Fund-1a lines 633 and 921) | | | | | | | | |
| Advisory and Assistance Services (Fund-1a line 931) | | | | | | | | |
| Rent, Communications, Utilities, and Miscellaneous Charges (Fund-1a lines 634, 671, 912, 913, 914, and 915) | | | | | | | | |
| Other Purchased Services (All other Fund-1a lines) | | | | | | | | |
| Total Operating Budget ^{A/} | | | | | | | | |
| Less Depreciation | | | | | | | | |
| Inventory Procurement Expenses (Supply Management Only) | | | | | | | | |
| Total Obligations | | | | | | | | |

^{A/} For Supply Management Activity groups, Total Operating Budget is for supply operations only. All entries on this form are obligations except for the costs of depreciation.

Instructions for Preparation of Exhibit Fund-1
Summary of Price, Program, and Other Changes

This exhibit reflects the total operating costs/*expenses* (including reimbursements for non-Fund activity groups) to accomplish the work load. The Fund 1 is Summary Exhibit that consolidates the information from the Fund-1A. The components are required to address changes in cost/expenses between fiscal years as either price or program. Price changes are restricted by the inflation index published in OUSD(C) guidance with the exception of price increase resulting from another Working Capital Fund rate changes. In addition, components must reflect a depreciation expense for all capital benefiting the activity group. Both the Summary Exhibit (Fund-1) and the Detail Exhibit (Fund-1a), which reflects the costs/expenses incurred to support sales activity, are required for all activity groups except for Supply Management activity groups. For Supply Management Activity groups, all entries on this form are obligations except for depreciation and Inventory Procurement Expenses.

Details of Price, Program, and Other Changes (Operating Budget) - Costs
(\$ in Millions)

| | <u>Cost of Operations FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth Percent</u> <u>Amount</u> | <u>Program & Other Changes</u> | <u>Cost of Operations FY --</u> |
|---|---|--|---|--|---|
| <u>MILITARY PERSONNEL COMPENSATION</u> | | | | | |
| 010 | | | | | |
| Officer Composite – Civilian Equivalent Rates | | | | | |
| 050 | | | | | |
| Enlisted Composite – Civilian Equivalent Rates | | | | | |
| | | | | | |
| Total Military Personnel Compensation | | | | | |
| <u>CIVILIAN PERSONNEL COMPENSATION</u> | | | | | |
| 101 | | | | | |
| Executive, General, and Special Schedule | | | | | |
| 103 | | | | | |
| Wage Board | | | | | |
| 104 | | | | | |
| Foreign National Direct Hire (FNDH) | | | | | |
| 105 | | | | | |
| Separation Liability (FNDH) | | | | | |
| 106 | | | | | |
| Benefits to Former Employees | | | | | |
| 107 | | | | | |
| Voluntary Separation Incentive Program | | | | | |
| 110 | | | | | |
| Unemployment Compensation | | | | | |
| 111 | | | | | |
| Disability Compensation | | | | | |
| 112 | | | | | |
| Retirement Fund Offset (15% of Employee’s final basic pay) | | | | | |
| 121 | | | | | |
| Permanent Change of Station (PCS) | | | | | |
| | | | | | |
| Total Civilian Personnel Compensation | | | | | |
| 200 | | | | | |
| Cost of Inventory Sold | | | | | |
| <p>Note: For Supply Management Activity groups, all entries on this form are obligations except for the costs of depreciation.</p> <p>Note: This category applies to Supply Management Activity Groups only and represents Inventory Procurement Expenses and not obligations to acquire inventory.</p> | | | | | |
| <u>TRAVEL</u> | | | | | |
| 308 | | | | | |
| Travel of Persons | | | | | |
| | | | | | |
| Total Travel | | | | | |
| <u>MATERIAL & SUPPLIES (FOR INTERNAL OPERATIONS)</u> | | | | | |
| 401 | | | | | |
| DESC (Fuel) | | | | | |
| 402 | | | | | |
| Service Fuel (Purchases From Other than DESC) | | | | | |
| 411 | | | | | |
| Army Managed Supplies and Materials | | | | | |
| 412 | | | | | |
| Navy Managed Supplies and Materials | | | | | |
| 413 | | | | | |
| Non-capitalized Equipment Procured from DoD Sources | | | | | |
| 414 | | | | | |
| Air Force Managed Supplies and Materials | | | | | |

Details of Price, Program, and Other Changes (Operating Budget) - Cost
(\$ in Millions)

| | <u>Cost of Operations FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth</u> | | <u>Program & Other Changes</u> | <u>Cost of Operations FY --</u> |
|--|--|--|---------------------|---------------|--|---|
| | | | <u>Percent</u> | <u>Amount</u> | | |
| <u>MATERIAL & SUPPLIES (FOR INTERNAL OPERATIONS) continued</u> | | | | | | |
| 415 | | | | | | |
| 416 | | | | | | |
| 421 | | | | | | |
| 422 | | | | | | |
| | Total Material, Equipment & Supplie | | | | | |
| <u>EQUIPMENT PURCHASES</u> | | | | | | |
| 502 | | | | | | |
| 503 | | | | | | |
| 505 | | | | | | |
| 506 | | | | | | |
| 507 | | | | | | |
| 550 | | | | | | |
| | Total Equipment Purchased from the Fund | | | | | |
| <u>CAPITAL INVESTMENTS BETWEEN BUDGET AND ACCOUNTING THRESHOLDS</u> | | | | | | |
| 560 | | | | | | |
| 561 | | | | | | |
| 562 | | | | | | |
| 563 | | | | | | |
| | Total | | | | | |
| <u>OTHER REVOLVING FUND PURCHASES</u> | | | | | | |
| 601-699 | | | | | | |
| 601 | | | | | <u>Component</u> Army | |
| 603 | | | | | Defense | |
| 610 | | | | | Navy | |
| 611 | | | | | Navy | |
| 612 | | | | | Navy | |
| 613 | | | | | Navy | |
| 614 | | | | | Navy | |

Exhibit Fund-1a Details of Price and Program Changes - Costs

Details of Price, Program, and Other Changes (Operating Budget) - Cost
(\$ in Millions)

| | <u>Cost of Operations</u> <u>FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth</u> <u>Percent</u> <u>Amount</u> | <u>Program & Other Changes</u> | <u>Cost of Operations</u> <u>FY --</u> |
|--|---|------------------------------------|---|------------------------------------|---|
| <u>Transportation:</u> | | | | | |
| 620 Fleet Auxiliary Force | | | | | <u>Component</u> Navy |
| 621 Afloat Prepositioning Ships Navy/Marine Corps | | | | | Navy |
| 623 Special Mission Support | | | | | Navy |
| 624 Military Sealift Command | | | | | Navy |
| 653 Transportation (Airlift Services (Training)) | | | | | Air Force |
| 630 Naval Research Laboratory | | | | | Navy |
| 631 Naval Facilities Engineering Service Center | | | | | Navy |
| <u>Navy Base Support Services:</u> | | | | | |
| 634 Facility Engineering - Utilities | | | | | Navy |
| 635 Facility Engineering - Other | | | | | Navy |
| 639 Facility Engineering (Composite Rate) | | | | | Navy |
| 637 Not Used | | | | | Navy |
| 640 Marine Corps Depot Maintenance | | | | | Marine Corps |
| 647 DISA Computing Services | | | | | Defense |
| 651 DFAS Information Services | | | | | Defense |
| <u>Depot Maintenance:</u> | | | | | |
| 661 Organic Operations | | | | | Air Force |
| 662 Contract | | | | | Air Force |
| 633 Document Automation and Productions Service (DAPS) | | | | | Defense |
| 670 Defense Automatic Addressing Systems | | | | | Defense |
| 671 DISA Telecommunications Subscription Service | | | | | Defense |
| 672 Purchases From Pentagon Reservation Maintenance Revolving Fund | | | | | Defense |
| 673 Financial Operations (DFAS) | | | | | Defense |

Exhibit Fund-1a Details of Price and Program Changes - Costs

Details of Price, Program, and Other Changes (Operating Budget) - Cost
 (\$ in Millions)

| | <u>Cost of Operations</u> <u>FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth</u> <u>Percent</u> <u>Amount</u> | <u>Program & Other Changes</u> | <u>Cost of Operations</u> <u>FY --</u> |
|---|---|------------------------------------|---|------------------------------------|---|
| 674 Distribution Depots (DLA) | | | | | Defense |
| 675 Defense Reutilization and Marketing Services (DRMS) | | | | | Defense |
| 676 Defense Commissary Operations | | | | | Defense |
| 677 DISA Telecomm Services - Other, (Enterprise Acquisition Service Non-DISA) | | | | | Defense |
| 678 Defense Security Service | | | | | Defense |
| 680 Purchases from the Buildings Maintenance Fund | | | | | Defense |
| 679 Cost Reimbursable Purchases | | | | | All |
| 680-689 Other Activity groups (List) | | | | | All |
| Total Other Fund Purchases | | | | | |
| <u>TRANSPORTATION</u> | | | | | |
| 701 AMC Cargo | | | | | |
| 702 AMC SAAM | | | | | |
| 703 AMC JCS Exercises | | | | | |
| 704 Defense Courier Service | | | | | |
| 705 AMC Passengers | | | | | |
| 709 MSC Afloat Prepositioning Ships (Army, Navy, Air Force, DLA) | | | | | |
| 710 MSC Surge Sealift (FSS and LMSR) | | | | | |
| 711 MSC Chartered Cargo | | | | | |
| 712 MSC POL Tanker ships | | | | | |
| 721 SDDC Cargo Operations | | | | | |
| 725 SDDC Liner Ocean Transportation | | | | | |
| 726 SDDC Global POV | | | | | |
| 727 SDDC Other | | | | | |
| 771 Commercial Transportation | | | | | |
| Total Transportation | | | | | |
| OCONUS Transportation-Supply Mgt only (Memo) | | | | | |

Exhibit Fund-1a Details of Price and Program Changes - Costs

Details of Price, Program, and Other Changes (Operating Budget) - Cost
 (\$ in Millions)

| | <u>Cost of Operations FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth Percent</u> | <u>Amount</u> | <u>Program & Other Changes</u> | <u>Cost of Operations FY --</u> |
|---|---|--|---------------------------------|---------------|--|--|
| <u>CAPITAL INVESTMENT DEPRECIATION</u> | | | | | | |
| 802 | | | | | | Equipment, except ADPE and Telecommunications Equipment (depreciation) |
| 803 | | | | | | ADPE and Telecom Resources (depreciation) |
| 804 | | | | | | Software Development (depreciation) |
| 805 | | | | | | Minor Construction (depreciation) |
| 806 | | | | | | Improvements Made to Land |
| | | | | | | Total Capital Investment Depreciation |
| <u>OTHER PURCHASED SERVICES</u> | | | | | | |
| 901 | | | | | | Foreign National Indirect Hire (FNIH) |
| 902 | | | | | | Separation Liability (FNIH) |
| 912 | | | | | | SLUC (GSA Leases) |
| 913 | | | | | | Purchased Utilities (non-Fund) |
| 914 | | | | | | Purchased Communications (non-Fund) |
| 915 | | | | | | Rents & Leases (non-GSA) |
| 917 | | | | | | Postal Services (U.S.P.S.) |
| 921 | | | | | | Printing & Reproduction |
| 922 | | | | | | Equipment Maintenance by Contract |
| 923 | | | | | | Facility Maintenance by Contract |
| 927 | | | | | | Air Defense Contracts and Space Support (AF) |
| 928 | | | | | | Ship Maintenance by Contract |
| 929 | | | | | | Aircraft Rework by Contract |
| 930 | | | | | | Other Depot Maintenance (non-Fund) |
| 931 | | | | | | Contract Consultants |
| 932 | | | | | | Management and Professional Support Services |
| 933 | | | | | | Studies, Analysis, and Evaluation |
| 934 | | | | | | Engineering Technical Services |
| 941 | | | | | | Technical Drawings (Supply Operations only) |

Exhibit Fund-1a Details of Price and Program Changes - Costs

Details of Price, Program, and Other Changes (Operating Budget) - Cost
 (\$ in Millions)

| | <u>Cost of Operations</u> <u>FY --</u> | <u>Annualization of Pay Raises</u> | <u>Price Growth</u> <u>Percent</u> <u>Amount</u> | <u>Program & Other Changes</u> | <u>Cost of Operations</u> <u>FY --</u> |
|---|---|------------------------------------|---|------------------------------------|---|
| 942 Forgings & Castings (Supply Operations only) | | | | | |
| 969 Other Engineering Services & Support | | | | | |
| 989 Other Contracts | | | | | |
| 998 Other Costs (List and identify items over \$10,000) | | | | | |
| Total Other Purchases | | | | | |

TOTAL COST OF OPERATIONS (Includes Reimbursements)

Exhibit Fund-1a Details of Price and Program Changes - Costs

Definitions of Fund-1a Categories - Cost
Details of Price, Program, and Other Changes (Operating Budget)

General. The Fund-1 and Fund-1a Exhibits reflect the total costs/expenses of supporting the applicable activity group for each fiscal year PY, CY, BY1, and BY2. Changes in cost between years must be address as price or program driven. All activity groups will report the amortized capital costs (depreciation expense) of the activity for the capital investments benefiting the activity group. All entries are costs except for Supply Management activity groups. For Supply Management activity groups, all entries are obligations except for the costs of depreciation. Round data to the nearest tenth of a million (e.g., show \$10.4 million, not \$10 million).

Military Personnel Compensation - The elements of cost to be included in the calculation of Military Personnel composite enlisted and officer rates can be found in chapter 26 of the DoD Accounting Manual.

Civilian Personnel Compensation - The elements of cost now include VERA and RIF costs as well as the costs to offset the short-term costs of buyouts.

112 - 15 percent of the final basic pay of each employee who takes a buyout and voluntary early retirement under the Civil Service Retirement System (CSRS).

Cost of Inventory Sold – This applies to Supply Management Activity Groups only and represent the cost of Inventory Procurement Expenses (not obligations).

Material, Equipment, & Supplies - These elements support the internal material, equipment, and supply costs associated with operation of the associated supply activity. Distinguish between expenses associated with material purchased from Fund businesses and that purchased from non-Fund businesses.

413 - For equipment purchases of less than \$250,000 per item. Equipment costing more than \$250,000 per item will be capitalized and depreciated under element 801.

Other Purchases

941 - The amount entered for Technical Drawings will agree with the amount for this element in supporting budget justification materials.

942 - The amount entered for Forgings and Castings will agree with the amount for this element in supporting budget justification materials.

War Reserve Material Sales - Enter the amount for this element of expense supported by budget justification materials and included in operating budget totals. Other pertinent information is explained below: Exhibits are required to show changes from the prior year to the current year, the current year to the BY1, and from the BY1 to the BY2.

Elements of expense for which there are no costs should be excluded from the data submitted (rather than included with an amount of zero).

Exhibit Fund-1a Details of Price and Program Changes – Costs

- Elements of expense 601-699 should be used for purchases from Working Capital Fund Activity Groups other than supply operations to support the internal operations of the activity group. Purchases by supply operations from depot maintenance businesses should be included in category 600. Purchases from the supply operations business to support the internal operations of the business should be reported in category 400.

Lines 601-676 and 680-689 should include purchases made at stabilized rates. Cost reimbursable purchases should be included in line 699.

- Purchases of engineering services, other than those shown on lines 931-934 should be included on line 969, Other Engineering Services and Support.

The Fund-1a data will be submitted via the Select and Native Programming Data Input System (SNaP) located at <https://snap.pae.osd.mil>. The most current version of this exhibit will be found at this site.

Changes in the Costs of Operation
Component/Activity group:

Date:

(Dollars in Millions)

Expenses

FY PY Estimated Actual

FY CY Estimate in President's Budget:

Estimated Impact in FY CY of Actual

FY PY Experience:

List

Pricing Adjustments:

Civilian Personnel

Fuel Price

Program Changes:

List

FY CY Current Estimate:

Pricing Adjustments:

Annualization of Prior Year Pay Raises

FY BY1 Pay Raise

Civilian Personnel

Military Personnel

Fund Price Changes

General Purchase Inflation

Other Price Changes (list)

Productivity Initiatives and Other Efficiencies:

Productivity Initiative 1

Fund Productivity

Etc.

Program Changes:

Change 1

Etc.

Exhibit Fund-2 Changes in the Costs of Operation

Changes in the Costs of Operation (continued)**Component/Activity group:****Date:****(Dollars in Millions)****Expenses**

Other Changes:

Depreciation

Other (list)

FY BY1 Estimate:

Pricing Adjustments:

Annualization of Prior Year Pay Raises

FY BY2 Pay Raise

Civilian Personnel

Military Personnel

Fund Price Changes

General Purchase Inflation

Other Price Changes (list)

Productivity Initiatives and Other Efficiencies:

Productivity Initiative 1

Fund Productivity

Etc.

Program Changes:

Change 1

Etc.

Other Changes:

Depreciation

Other (list)

FY BY2 Estimate:

This exhibit will explain the changes in the operating budget (expenses) from one fiscal year to the next at a meaningful level of detail, relating program changes to changes in the level of work load (Unit Cost outputs) to the maximum extent possible. A Fund-2 exhibit for each Fund activity group is required. Of particular interest are the strategies and plans to improve activity group productivity and quality. Accordingly, the cost impacts of productivity initiatives should be separately identified on this schedule. Each activity group should include a paragraph outlining major productivity improvement plans and associated resources including but not limited to capital investment, education and training initiatives, process improvement, consolidation and streamlining, work force motivation, and incentives.

Exhibit Fund-2 Changes in the Costs of Operation

Changes in the Costs of Operation (continued)

Component/Activity group:

Date:

(Dollars in Millions)

Expenses

Provide a narrative explanation for changes. Round data to the nearest tenth of a million (e.g., show \$ 10.4 million, not \$ 10 million).

For changes in cost due to productivity initiatives, list the detailed initiatives and amounts for each. Distinguish the cost reductions associated by individual productivity initiatives.

Exhibit Fund-2 Changes in the Costs of Operation

Labor and Unit Cost Breakdown
Component: _____
Activity group: _____
Date: _____

| <u>FY PY</u> Indicator | <u>Direct</u> | | <u>Indirect</u> | | <u>Gen & Adm</u> | | (\$ in Millions) <u>Workload</u> | | <u>Total</u> | <u>Unit</u> |
|---|---|--------------------|-----------------|--------------------|----------------------|--------------------|-------------------------------------|--------------------|--------------|-------------|
| | <u>Labor 1/ Cost</u> | <u>Nonlabor 2/</u> | <u>Labor 1/</u> | <u>Nonlabor 2/</u> | <u>Labor 1/</u> | <u>Nonlabor 2/</u> | <u>Labor 1/</u> | <u>Nonlabor 2/</u> | | |
| FY CY Depreciation, Other between these Unit Cost FY BY1 the exception of activity group. | <p>1/ Includes military and civilian compensation</p> <p>2/ Breakout non-labor into the following categories: Material, Contractual Services, List total Direct, Indirect, and General and Administrative expenses by year. The distinction elements of cost is based on the 15 October 1990 Unit Cost Resourcing Guidance, or approved Task Group Mapping. For Supply Management Activity groups, all entries on this form are in obligations with depreciation. Workload may be expressed in Direct Labor Hours or other meaningful measure for the Unit Cost will equal total cost divided by total workload measure for each fiscal year.</p> | | | | | | | | | |

FY BY2

| <u>FY PY</u> Civilian FTEs Civilian End Strength Military End Strength | Area Personnel Breakdown | | | |
|---|---------------------------------|-----------------|----------------------|--------------|
| | <u>Direct</u> | <u>Indirect</u> | <u>Gen & Adm</u> | <u>Total</u> |
| FY CY Civilian FTEs Civilian End Strength Military End Strength | | | | |

Labor and Unit Cost Breakdown
 Component: _____
 Activity group: _____
 Date: _____

| <u>Indicator</u> | <u>Direct</u> | | <u>Indirect</u> | | <u>Gen & Adm</u> | | (\$ in Millions) <u>Workload</u> | | <u>Total</u> | <u>Unit</u> |
|-----------------------|-----------------|-------------|--------------------|--------------------|----------------------|--------------------|-------------------------------------|--------------------|--------------|-------------|
| | <u>Labor 1/</u> | <u>Cost</u> | <u>Nonlabor 2/</u> | <u>Nonlabor 2/</u> | <u>Labor 1/</u> | <u>Nonlabor 2/</u> | <u>Labor 1/</u> | <u>Nonlabor 2/</u> | | |
| <u>FY BY1</u> | | | | | | | | | | |
| Civilian FTEs | | | | | | | | | | |
| Civilian End Strength | | | | | | | | | | |
| Military End Strength | | | | | | | | | | |
| <u>FY BY2</u> | | | | | | | | | | |
| Civilian FTEs | | | | | | | | | | |
| Civilian End Strength | | | | | | | | | | |
| Military End Strength | | | | | | | | | | |

Exhibit Fund-3 Labor and Unit Cost Breakdown

Instruction for the Preparation of Exhibit Fund-3
Labor and Unit Cost Breakdown

The Fund-3 exhibit stratifies, by fiscal year, the total activity group costs in the operating budget by Direct, Indirect, and General and Administrative (G&A) categories. In addition it displays total workload in terms of direct labor hours or other measure and the applicable unit cost. For the G&A category, only the personnel carried in and paid for by the activity group should be reflected in the personnel strength numbers. This includes personnel paid from the activity group payroll such as assigned security guards and personnel working in the office of the activity group director. However, this does not include the personnel assigned to a general & administrative activity that provides base operations support to the activity group unless they are carried in the end strength of the business activity.

The Fund-3 data will be submitted via the Select and Native Programming Data Input System (SNaP) located at <https://snap.pae.osd.mil>. The most current version of this exhibit will be found at this site.

Exhibit Fund-3 Labor and Unit Cost Cost Breakdown

Total Cost Per Output Summary
Component: _____
Activity group: _____
Date: _____
 (\$ Millions)

| | Work load | | | | Unit Cost | | | | Total Cost | | | |
|---|---|------------------|-------------------|-------------------|---|------------------|-------------------|-------------------|--|------------------|-------------------|-------------------|
| | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> |
| Output Operating Budget | | | | | | | | | | | | |
| List each output whether measured or not. | Estimated work load for measured outputs. | | | | Estimated unit cost for measured outputs. | | | | Estimated total cost for measured and unmeasured outputs. O&M functions must include reimbursable outputs. | | | |
| | ----- | | | | | | | | ----- | | | |
| Total Operating Budget | No Data Entry | | | | No Data Entry | | | | Sum the total estimated cost for all outputs. O&M-funded activities must include reimbursable outputs. | | | |
| | ===== | | | | | | | | ===== | | | |
| | ===== | | | | | | | | ===== | | | |
| Capital Budget | No Data Entry | | | | No Data Entry | | | | List the estimated total capital budget. | | | |
| | ===== | | | | | | | | ===== | | | |
| | ===== | | | | | | | | ===== | | | |

This exhibit specifies, by fiscal year, the operating budget by the costs and outputs associated with each activity group. Total costs on this exhibit will add to the operating budget total. Enter the total capital budget amount (authority) as the last item in the table. Exhibit Fund-5 corresponds to the funding document that will be issued for those activity groups that have a limited number of outputs. Exhibit Fund-5 Total Cost Per Output Summary

Exhibit Fund-5 Total Cost Per Output Summary

COMPONENT: _____

★ DEPOT MAINTENANCE-SIX PERCENT CAPITAL INVESTMENT PLAN

(\$ In Millions)

| | <u>REVENUE</u> | | | <u>BUDGETED CAPITAL</u> | | | <u>DIFFERENCE</u> | | |
|---|-----------------------|----------------|---------------|-------------------------|----------------|---------------|-------------------|----------------|---------------|
| | <u>3 YEAR AVERAGE</u> | | | <u>Prior</u> | <u>Current</u> | <u>Budget</u> | <u>Prior</u> | <u>Current</u> | <u>Budget</u> |
| | <u>Prior</u> | <u>Current</u> | <u>Budget</u> | | | | | | |
| | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> | <u>Year</u> |
| | PY(-1) | CY(-1) | BY(-1) | | | | | | |
| | PY(-2) | CY(-2) | BY(-2) | | | | | | |
| | PY(-3) | CY(-3) | BY(-3) | | | | | | |
| | Divide by 3 | | | | | | | | |
| Revenue | | | | | | | | | |
| Working Capital | | | | | | | | | |
| Fund | | | | | | | | | |
| Appropriations | | | | | | | | | |
| Total Revenue | | | | | | | | | |
| WCF Depot Maintenance Investment Categories | | | | * | * | * | | | |
| Facilities Sustainment, Restoration and | | | | | | | | | |
| Modernization | | | | * | * | * | | | |
| Equipment (Exhibit Fund 1a-500 lines) | | | | * | * | * | | | |
| Capital Investment Program | | | | * | * | * | | | |
| Productivity Enhancements | | | | * | * | * | | | |
| Military | | | | | | | | | |
| Construction | | | | * | * | * | | | |
| Total WCF Investment | | | | * | * | * | | | |
| Appropriated | | | | | | | | | |
| Funding | | | | * | * | * | | | |
| (List by | | | | | | | | | |
| Appropriation) | | | | | | | | | |
| Component Total | | | | * | * | * | * | * | * |

NOTE:

*: Required data

Exhibit Fund-6: Depot Maintenance-Six Percent Capital Investment Plan

Instructions for the Preparation of Exhibit Fund-6,
Depot Maintenance –Six Percent Capital Investment Plan

The purpose of the Exhibit Fund-6, Depot Maintenance-Six Percent Capital Investment Plan, is to provide and identify minimum capital investment levels for the Department's maintenance depots. Instructions for preparation of Exhibit Fund-6 are as follows:

1. Prepare a Exhibit Fund-6 for all maintenance depots to include Army Depots, Navy Aviation Depots, Navy Shipyards, Marine Corps Depots, and Air Force Depots.
2. Dollars in millions and tenths of a million.
3. The following will be defined:
 - a. Revenue: Total actual (AR 1307 Report) or projected revenue (Exhibit Fund-14) including approved supplemental appropriation support for Defense Working Capital Fund (DWCF) business activities. Depot maintenance funded through appropriations will include all funding for depot maintenance.
 - b. Revenue (3 Year Average): The preceding three years of actual or estimated revenue divided by three for Prior Year, Current Year, and Budget Year columns under Budgeted Capital.
 - c. Categories:
 1. **Facilities Sustainment, Restoration and Modernization**- This includes repair and maintenance for day to day operations but does not include the minor reoccurring maintenance. Minor reoccurring maintenance examples are changing light bulbs, toilet seals, and window screens. This also includes Other Purchases Services/Facility Maintenance by Contract (Line 923).
 2. **Equipment** (Fund 1a - 500 lines) - These fall into three categories: A) Equipment purchases by the depots which fall under the expense/investment threshold required by the Capital Investment Program guidance; B) Equipment purchases by other organizations which fall under the expense/investment threshold; C) Equipment bought by other organizations for use in repairing or maintaining depot type workload that are above the expense/investment threshold (typically procurement funded).
 3. **Capital Investment Program** - This includes all items purchased by a revolving fund with a unit cost that equals or exceeds the expense/ investment threshold established by Congress and has a useful life of more than two years. The categories include: Non-ADPE Equipment, Automated Data Processing Equipment (ADPE), Automated Data Processing Software, and Minor Construction. The investment threshold is \$250K for everything except Minor Construction which remains at \$100K.
 4. **Productivity Enhancements**- These investments include Lean Six Sigma and other initiatives. These enhancements will include process improvements and purchase/improvement of equipment and facilities. This includes Air Force Depot Maintenance Transformation.

5. **Military Construction (MILCON)** - This appropriation is a multiple year appropriation available for obligation for five years. MILCON projects require authorizing and funding (appropriation) legislation and include planning, design, and construction.
 - d. Difference column: represents total revenue times applicable depot maintenance percentage minus depot maintenance capital investment. The capital investment percentage of 6 percent is specified in Section 332 of the National Defense Authorization Act for FY 2007. It is codified as permanent law.
 - e. Capital investments for appropriated activities should include similar items from the applicable Procurement or Operation and Maintenance budget exhibits.
4. A narrative should be included with the Exhibit Fund-6 to address the following:
 - a. A specification of any statutory, regulatory, or operational impediments to achieving the minimum percentage requirement.
 - b. A description of the benchmarks for capital investment established for each covered depot and military department and the relationship of the benchmarks to applicable performance measurement methods used in the private sector.
 - c. If the minimum percentage requirement is not met for a military department for the fiscal year covered by the report, a statement of the reasons why the requirement was not met and a plan of actions for meeting the requirement for the fiscal year beginning in the year in which the report is submitted.
5. The legislation provides waiver authority for the Secretary of Defense if the Secretary determines that the waiver is necessary for reasons of national security and notifies congressional defense committees.

Exhibit Fund-6 Depot Maintenance-Six Percent Capital Investment Plan

FOR DEPOT MAINTENANCE BUSINESS AREAS ONLY

Activity group: _____

FY __

| Prior Year Stabilized Rate (\$) | Direct Labor Hours (000) Carry-in | Revenue Carry-in Orders (\$ Mil) | Proposed New Order Rate (\$) | Direct Labor Hours (000) Total New Orders Accepted | Revenue Total New Orders (\$ Mil) | New Orders Accepted but Not Worked (\$ Mil) <u>1/</u> | Proposed Carry-out Rate (\$ Mil) | DLHs (000) Carry-out <u>2/</u> |
|---------------------------------|-----------------------------------|----------------------------------|------------------------------|--|-----------------------------------|---|----------------------------------|--------------------------------|
|---------------------------------|-----------------------------------|----------------------------------|------------------------------|--|-----------------------------------|---|----------------------------------|--------------------------------|

Funding Source

Parent Service (List customers by appropriation, fund, or other sources. All orders must match the OP-21 exhibit in total.)

Other DoD Services (List by Service. Show by appropriations, fund, or other source.)

Other DoD Agencies (List by agency.)

Other DoD Funds (List by Fund, i.e., Navy Supply Management, Air Force Depot Maintenance, etc.)

Non DoD Agencies, Individuals & Others

Total

1/ These orders are included within Total New Orders Accepted, but are not programmed for execution during the budget year.

2/ This column would include all orders from column 7 (New Orders Accepted but Not Worked), plus any additional multi-year orders funded in prior years (FY-1, etc.), but still not programmed for execution in this fiscal year.

Exhibit Fund-7a Summary of Sources of Revenue

Instructions for Completing the Fund-7a, Summary of Sources of Revenue

Separate fiscal year exhibits are required for the prior year, current year, and budget year.

Revenue from carry-in orders at the beginning of the fiscal year must equal the carry-out balance at year-end for the previous fiscal year. New customer orders should be priced at the rate used in the Components' customer account request (see guidance on setting rates). Carry-out orders should be priced based on the pricing guidance. Because carry-out orders cannot be billed until accomplished, the sum of the revenue derived from carry-in orders, new orders planned for execution in this fiscal year, and the other column should equal total revenue from orders for the fiscal year. Other revenue includes pass-through, direct funding, and cost reimbursable orders that are not subject to stabilized rates.

Direct labor hours (DLHs) for carry-in work include only carry-in (balance on hand beginning of the year) anticipated to be executed during the program year. For multiyear projects, that portion of carry-in programmed for execution in future years should be added to carry-out work load. Show new customer order received from each appropriation, agency, or fund, as applicable. Any new customer orders not programmed for execution during the programmed fiscal year should be included in the carry-out category.

Revenue amounts must agree with the applicable Revenue and Expense Exhibits (Fund-11) and with Summary of Price and Program Changes Exhibits (OP-32). (See pricing and customer account guidance in the DoD Financial Management Regulation and in the budget guidance.)

The prior year stabilized rate is the DoD composite revenue rate set in the prior year(s) budget(s). If carry-in from more than one year is involved, provide the weighted average based on the number of DLHs and the rate applicable for each year. If all carry-in was at the same rate, then only one entry is required at the top of the column. If the business has established sub-composite rates (that make up the DoD stabilized rate) such as a rate by major commodity or product (engines, airframes, components, etc.), these sub-composite rates may be used in the "Prior Year Stabilized Rate" column if grouped by customer or appropriation.

The reporting of carryover balances is no longer included in this exhibit. Depot Maintenance, Ordnance and Research and Development activities use the Fund-11a exhibit - Carryover Reconciliation, to justify carryover estimates. Exhibit format and preparation instructions are found later in this chapter.

Exhibit Fund-7a Summary of Sources of Revenue

CUSTOMER RATE COMPUTATIONS
 Department of (Component Name)
 Activity group: _____

**New Order
 FY**

| <u>Adjustment</u> | <u>Direct Labor Hours</u> | <u>Program Cost</u> | <u>Rate (\$)</u> |
|--|---------------------------|---------------------|------------------|
| Prior Year Stabilized Rate: | | | \$xx.xx |
| 1. Total programmed Direct Labor Hours (DLHs) anticipated to be executed during the fiscal year: | xxx,xxx,xxx | | |
| 2. Total Cost of Goods Sold during year: | | \$xxx,xxx,xxx | |
| 3. Minus DLHs associated with carry-in orders: | - xxx,xxx | | |
| 4. Minus non-stabilized rate revenue and revenue from carry-in orders at prior year composite rate: (including BRAC funding, direct reimbursables, UPC funds, passthroughs, etc.)with related DLHs: | | -\$ xx,xxx,xxx | |
| BRAC | xxx.xxx | xxx,xxx | |
| Passthroughs | xxx,xxx | xxx,xxx | |
| Direct Reimbursables (List) | xxx,xxx | xxx,xxx | |
| 5. Total Direct Labor Hours for New Orders accepted and programmed for execution this year (Line 1 minus line 3 minus line 4): | xxx,xxx,xxx | | |
| 6. Adjusted Cost of Goods Sold(Line 2 minus line 4): | | \$xxx,xxx,xxx | |
| 7. Cost Per Direct Labor Hour for New Orders: (line 6 divided by line 5). | | | \$xx.xx |

Exhibit Fund-7b Customer Rate Computations

CUSTOMER RATE COMPUTATIONS
Department of (Component Name)
Activity group: _____

| <u>Adjustment</u> | <u>Direct Labor Hours</u> | <u>Program Cost</u> | <u>Rate (\$)</u> |
|--|---------------------------|---------------------|-------------------|
| 8. Adjustment for prior year gains or losses necessary to achieve an end-of-year AOR of zero for the budget year: Step 8 is calculated as follows: (a) Take the previous year end-of-year AOR and add to that any new surcharges required. | | | +/- \$xxx,xxx,xxx |
| If an activity proposes to recover an operating loss over more than one fiscal year, the total operating loss and the amount carried to the next fiscal year must be displayed. | | | |
| 9. Rate Based Revenue Required (the sum of Line 7 and line 8): | | \$xxx,xxx,xxx | |
| 10. New Customer Order Stabilized Rate (Cost Per Direct Labor Hour): | | | \$xx.xx |
| This rate is calculated by dividing line 9 by the DLHs from line 5. | | | |
| 11. Percentage rate change from prior year: (Line 10 rate divided by Line 1 rate) minus 1. | | | +/- xx.xx% |

Navy Research and Development Rates. The Navy will include the total composite rate change for the Research and Development activity group in addition to the stabilized rate (for work performed in-house only) in the budget estimates submission. Activity groups may separately propose and justify rates by activity or product line provided the total for all rates ties back to the activity group composite rate.

Depot Sales to Private Entity Partners. Anticipated revenue of DoD depot maintenance activities from sales to private sector entities as part of public-private partnership arrangements shall be separately listed under line 4 of this exhibit. In addition, DWCF depot budget submissions shall include an attachment to this exhibit delineating existing public/private partnership arrangements, anticipated cost revenue, and the elements of cost included in sale prices charged to private entity partners.

**AIR MOBILITY COMMAND (AMC)
 COMMON USER TRANSPORTATION SERVICES
 DEFENSE WORKING CAPITAL FUND SUMMARY
 DATE: _____**

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|---|--------------|--------------|---------------|---------------|
| I. Cost of Operations | | | | |
| Outputs: | | | | |
| Cost per Trained Flight Crew (1) | | | | |
| • C-5 | | | | |
| • C-130 (CONUS) | | | | |
| • C-17 | | | | |
| Other Outputs/Augmentation | | | | |
| • Channel Passenger Movement | | | | |
| • Channel Cargo | | | | |
| • Special Assignment Airlift Missions (SAAMs) | | | | |
| • Joint Chiefs of Staff Exercises | | | | |
| Other Outputs/Organic (2) | | | | |
| • Channel Passenger Movement | | | | |
| • Channel Cargo | | | | |
| Special Assignment Airlift Missions (SAAMs) | | | | |
| • Joint Chiefs of Staff Exercises | | | | |
| Support to Others/Base Operations (3) | | | | |
| Air Refueling Tankers | | | | |
| Aeromedical Evacuation | | | | |
| Commercial Mail Service | | | | |
| Total Costs | | | | |

Exhibit Fund-8b Air Mobility Command Common User Services

| | <u>FY BY1</u> | <u>FY BY2</u> | <u>FY PY</u> | <u>FY CY</u> |
|---|---------------|---------------|--------------|--------------|
| II. Revenue | | | | |
| Cost per Trained Flight Crew (1) | | | | |
| • C-5 | | | | |
| • C-130 (CONUS) | | | | |
| • C-17 | | | | |
| Other Outputs/Augmentation | | | | |
| • Channel Passenger Movement | | | | |
| • Channel Cargo | | | | |
| • Special Assignment Airlift Missions (SAAMs) | | | | |
| • Joint Chiefs of Staff Exercises | | | | |
| Other Outputs/Organic (2) | | | | |
| • Channel Passenger Movement | | | | |
| • Channel Cargo | | | | |
| Special Assignment Airlift Missions (SAAMs) | | | | |
| • Joint Chiefs of Staff Exercises | | | | |
| Support to Others/Base Operations (3) | | | | |
| Air Refueling Tankers | | | | |
| Aeromedical Evacuation | | | | |
| Commercial Mail Service | | | | |

Total Rate Based Revenue

III. Appropriation Request (Total Costs - Revenue): This request should be listed by output. The objective is to determine the request which is needed to fund the difference between the actual costs of flying AMC planes versus the revenue which is generated by commercially based rates.

Notes:

- (1) The cost per trained flight crew includes all organic airlift costs including estimated overhead for Base Operations and AMC Headquarters).
- (2) Provide estimated costs for airlift missions required solely for purposes of meeting customer demand such as disaster relief (e.g., Provide Hope, Provide Comfort, etc.).
- (3) Estimated Base Operations costs incurred in support of tenants. Base Operations costs in support of the AMC missions should be included in the total cost of the missions supported.

Exhibit Fund-8b Air Mobility Command Common User Services

| ★ Activity Group Capital Investment Summary | | | | | | | | | |
|---|--|----------|------------|----------|------------|----------|------------|----------|------------|
| Component: _____ Activity group: _____ | | | | | | | | | |
| Date: _____ | | | | | | | | | |
| (\$ in Millions) | | | | | | | | | |
| Line Number | Item Description | FY PY | | FY CY | | FY BY1 | | FY BY2 | |
| | | Quantity | Total Cost | Quantity | Total Cost | Quantity | Total Cost | Quantity | Total Cost |
| | Prior Year requires Line Items Detail for all categories | | | | | | | | |
| | Equipment Capabilities | | | | | | | | |
| | - Replacement | | | | | | | | |
| | - Productivity | | | | | | | | |
| | - New Mission | | | | | | | | |
| | - Environmental | | | | | | | | |
| | ADPE & Telecom Equip Capabilities | | | | | | | | |
| | Computer Hardware (Production) | | | | | | | | |
| | Computer Software (Operating System), | | | | | | | | |
| | Telecoms, Other Computer & Telecom Support Equip. | | | | | | | | |
| | Software Development List Separately | | | | | | | | |
| | Internally Developed | | | | | | | | |
| | Externally Developed | | | | | | | | |
| | Minor Construction Capabilities | | | | | | | | |
| | - Replacement | | | | | | | | |
| | - Productivity | | | | | | | | |
| | - New Mission | | | | | | | | |
| | - Environmental | | | | | | | | |
| | TOTAL OBLIGATIONS* | | | | | | | | |
| | Capital Outlays (below threshold) | | | | | | | | |
| | Capital Outlays (above threshold) | | | | | | | | |
| | Total Capital Outlays | | | | | | | | |
| | Total Depreciation Expense | | | | | | | | |

*Fund 9a Summary exhibit must reconcile to the Fund 9b project justification.
 Exhibit Fund 9a Activity group Capital Investment Summary

Instructions for the Fund-9a Exhibit
Capital Investment Summary

General - The summary item description on the 9a must correspond to the individual 9b descriptions and amount must equal. All Prior Year projects will be shown by line item detail cross-referenced to the capability and corresponding 9b. In addition, the ADPE and Telecommunications equipment and software development Fund-9b Exhibit line number assigned should also be used for cross-referencing within the Information Technology Exhibits as outlined in Chapter 18 of this regulation. Use the approved Defense Working Capital Funds activity group name. The four major categories for Capital Investment Programs are as follows:

(1) Software Development > \$250K

a. Software Development shall be shown by line item detail for projects equal to or greater than \$1 million. All software projections must comply with Business Transformation Agency and NII requirements/approvals.

b. Software development under \$1 million and that do not need BTA and NII approval, one 9B may be submitted with a general statement of the capabilities that will be provided. In addition, the 9Bs must include system delivery date/s. If it is a spiral development then the all delivery dates and amounts to be capitalized will be included in the 9Bs.

(2) ADPE & Telecommunications > \$250K

a. ADPE and Telecommunications Equipment Component may provide one 9B that include cost estimates for the following categories: (1) Computer Hardware (Production), (2) Computer Software (Operating System), (3) Telecommunications, and (4) Other Computer and Telecommunications Support Equipment. 9b narrative may address projects under \$1,000,000 by category

b. Items that exceed \$1,000,000 will be addressed separately in the narrative.

(3) Non-ADPE & Telecommunication Equipment > \$250K

a. Equipment, other than ADPE and Telecommunications Resources. A separate 9B will be provided for each capability. Each capability will include cost estimates for the following subcategories: Replacement Equipment; Productivity Equipment; New Mission Equipment; and Environmental Compliance.

(4) Minor Construction > 100K and equal to or less than \$750K

a. Minor Construction will be combined into one 9B with no line item detail required, but must be broken out by capability. The 9B must contain a statement that no Minor Construction project exceeds the current MILCON threshold.

b. All special categories of minor construction will be listed and justified separately.

1. Section 090103, Policy, provides specific guidelines in deciding whether or not to include an item in the capital budget, and the necessary pre- and post-investment analysis required to substantiate a capital budget request. Specific rules regarding depreciation of Capital Assets are found in paragraphs 090103B(1)-(8) and Volume 4 Chapter 6.

2. Definitions for these capital budget categories are provided below:

A. Equipment, other than ADPE and Telecommunications Resources, costing \$250,000 or more will be capitalized and depreciated. Equipment will be categorized by capabilities. Estimates for the following subcategories must be provided by capability.

Exhibit Fund 9a Activity group Capital Investment Summary

(1) Replacement Equipment should be systematically analyzed and alternatives considered meeting the replacement requirement in the most cost-effective manner supported by an economic analysis. The level of effort devoted to this analysis should be related to the dollar value of the proposed investment and should employ traditional capital investment evaluation techniques such as net present value and internal rate of return analysis. In the situation where a new piece of equipment being considered significantly exceeds the capability of existing equipment, the repair versus purchase decision should be justified in the category "Productivity Equipment".

(2) Productivity Equipment consists of equipment that significantly exceeds the efficiency or capability of existing equipment and should be supported by an economic analysis comparing the net present values of alternatives considered by the decision maker. Productivity equipment reduces the cost of operations of the business activity, thereby reducing cost per unit of output, or results in a product or service improvement that reduces the customer's cost of use.

(3) New Mission Equipment is equipment needed to support an increase in work load or a new mission that cannot be adequately accomplished with the existing equipment. Purchase decisions should be supported, where applicable, with a thorough and systematic analysis of the alternatives available to satisfy the requirement in the most cost-effective manner.

(4) Environmental Compliance Equipment is equipment needed to correct or forestall a condition in violation of local, state or federal statutes and regulations. Rather than an economic analysis, a description of the possible violation ought to be included and how the particular item of equipment will remedy the situation.

B. ADPE and Telecommunications Equipment having a system unit or life cycle cost of \$250,000 or more will be capitalized and depreciated.

(1) ADPE and telecommunications resources consist of computer hardware, operating system software (including utility and communications software) and telecommunications equipment as defined in OMB Circular A-11.

(2) ADPE costs will be displayed in four parts: (1) Computer Hardware (Production), (2) Computer Software (Operating System), (3) Telecommunications, and (4) Other Computer and Telecommunications Support Equipment. The last category includes investments such as uninterrupted power sources and air conditioning that must be purchased to support computer and telecommunications resources.

C. Software Development/Modernization with a system unit or lifecycle cost of \$250,000 or more will be capitalized and depreciated. Internally developed software and externally developed Software will be listed separately.

(1) Software development includes the actual development and acquisition of the information system as defined in OMB circular A-11. This category does not include software developed for a customer for use in a weapon system.

(2) Software development/modernization will be budgeted by project. A project is defined as any change, modernization, or improvement to a system, subsystem or severable module of a system that by itself will provide an economic benefit or improvement in a business process. This must include all changes or improvements needed to interface or integrate with other ancillary systems. A project has a start and stop date, a specific amount of funds, and results in a usable end product. The full scope of a software development project may consist of efforts in any or all of the following three phases:

Exhibit Fund 9a Activity group Capital Investment Summary

- a. Preliminary Design Phase
- b. Software Development Phase and
- c. Post Implementation/Operational Phase

3. While the full cost of a project will be considered in the planning of the project, only software development phase will be capitalized. The specific definitions of the phases of a project are found in section 090103C4 (a) of this volume.

4. Costs to be included in a software development project include the total labor and non-labor costs such as: (a) all direct cost for civilian and military personnel; (b) contractor labor; (c) supplies; (d) travel; (e) processing support for testing; (f) indirect costs; and (g) general and administrative costs (e.g., base operations support, higher headquarters, and depreciation for central design activity-owned assets). Software development/modernization projects will exclude ADPE and maintenance/operations costs. These will be identified separately in the ADPE and telecommunications section of the Fund-9a and Fund-9b.

D. Minor Construction projects financed by the activity group and costing from \$100,000 to \$750,000 (**\$2,000,000 for approved DoD Laboratory Revitalization Program projects**) will be capitalized and depreciated. In the year of execution the Director of OUSD (C) Revolving Funds may approve capital investment reprogramming request for Minor Construction projects costing up to \$1,500,000 if the project is required to correct a deficiency that is life-threatening, health threatening, or safety threatening. Where appropriate, minor construction decisions should be supported by an economic analysis.

E. Column Entries

(1) Item Description. Enter the capabilities projects/item are supporting or the proper nomenclature, or descriptive title of Software projects to be procured.

(2) Quantity. As applicable, enter the quantity of items procured/estimated to be procured during, as FY PY, FY CY, FY BY1, and FY BY2.

(3) Cost. Enter the estimated total cost of the applicable quantities procured/estimated to be procured during FY PY, FY CY, FY BY1, and FY BY2, as applicable. This amount should reflect all costs associated with program changes through the date of preparation of the exhibit regardless of whether such changes have been previously reported. Costs will be expressed in millions of dollars, to the nearest tenth (i.e., \$2.6 million).

F. Capital Outlays – For each fiscal year, indicate the estimated total cash outlays for all capital budgeted items (above and below threshold) expended in that fiscal year regardless of the year in which the project was originally obligated.

G. Depreciation Expense – For each fiscal year, show the estimated depreciation expense that will be included in customer rates for all capital assets (above and below threshold) in that year. This amount will agree with the depreciation expense reported on the Revenue and Expense Statement (Fund 14) and in the Depreciation Expense Section of the Fund 1A. As a general rule, a capital asset starts depreciating during the month following the month when the asset was installed and ready for use. For software however, depreciation will begin the month that final acceptance testing has been completed. If software is delivered in modules, depreciation will begin when a module provides a usable function to the component's activity.

Exhibit Fund 9a Activity group Capital Investment Summary

| * ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands) | | | | A. Budget Submission | | | | | | | | |
|--|----------|-----------|--------------------------------|----------------------|-----------|------------|----------|-----------|----------------------------|----------|-----------|------------|
| B. Component / Business Area / Date | | | C. Line No. & Item Description | | | | | | D. Activity Identification | | | |
| Element of Cost | FY PY | | | FY CY | | | FY BY1 | | | FY BY2 | | |
| | Quantity | Unit Cost | Total Cost | Quantity | Unit Cost | Total Cost | Quantity | Unit Cost | Total Cost | Quantity | Unit Cost | Total Cost |
| Non-ADPE & Telecom Capability | | | | | | | | | | | | |
| Replacement | | | | | | | | | | | | |
| Productivity | | | | | | | | | | | | |
| New Mission | | | | | | | | | | | | |
| Environmental | | | | | | | | | | | | |
| ADPE and Telecommunications Capability | | | | | | | | | | | | |
| Computer Hardware (Production) | | | | | | | | | | | | |
| Computer Software (Operating System) | | | | | | | | | | | | |
| Telecoms, Other Computer & Telecom Support Equip. | | | | | | | | | | | | |
| Software Development (line item – by project) | | | | | | | | | | | | |
| Minor Construction Capability | | | | | | | | | | | | |
| Replacement | | | | | | | | | | | | |
| Productivity | | | | | | | | | | | | |
| New Mission | | | | | | | | | | | | |
| Environmental | | | | | | | | | | | | |

Narrative Justification:

This exhibit will provide detailed justification by line item in support of summary capital investment purchases shown on the Fund-9a Exhibit.

- Describe the capability afforded by the existing equipment/ADPE and telecommunications resources/software development/facility and the shortcomings inherent in the current situation.
 - Describe the benefits to be realized from the proposed capital investment.
 - Indicate whether an economic analysis or cost analysis has been performed and, if not, why not. Summarize the net present value advantages of the proposed investment over alternatives considered and discarded. Be prepared to provide a copy of supporting economic analysis upon request.
 - For MILCON projects, provide a copy of the supporting Form 1391 for new projects not previously submitted or identified.
 - Describe the impact of not making the proposed capital investment.
 - For computer software, separately identify license fees.

Instructions for the Preparation of Exhibit Fund-9b
Capital Investment Justification

I. General

A. The purpose of this exhibit is to provide narrative justification in support of each capability or where appropriate line item detailed on the Fund-9a. A separate 9b justification is required for each capability or as applicable for software investments. For ADPE telecommunication equipment items that are equal to or greater than \$1,000,000.00, a separate 9b is not required, but components must include line item breakout within Element of Cost on the 9b (as shown in example 9b). Software projects over \$1,000,000.00 and/or that need Business Transformation Agency (BTA) and/or Networks and Information Integration (NII) approval are required to be line itemed with individual 9bs. It is important that the Fund-9b be completed and accurate as it is the primary justification for activity group's capital purchases.

B. Separate Fund-9b exhibits will be submitted for each capability or line item on the Fund-9a where there is an entry in either the current year or budget year(s) columns. Prior year capital investments do not require 9bs.

II. Headings

A. For "Program and Budget Review," insert "FY XX OSD/OMB submission" (XX is used for illustration purposes only. Insert the applicable fiscal year in lieu of XX).

B. Identify the applicable Component/Activity group for the proposed capital investment. Use the approved Defense Working Capital Fund Activity Group name. Identify the activity that will benefit from the capital item, if possible.

C. For each item (e.g., five new forklifts), indicate the item description contained in Exhibit Fund-9a.

D. Capability or Line Item No. & Capability or Item Description. Enter a line item identification number to cross-reference the corresponding entry on the Fund-9a along with a description of the investment.

III. Column Entries

A. Element of Cost. For items purchased under the capability based, provide the appropriate subcategories. For Software provide the item, and if applicable, break into module delivery subcategories.

B. Quantity. Provide the approximate number of items to be purchased under the capability or as applicable for software.

C. Per Unit Cost. Enter the actual or estimated unit cost, when appropriate, for each element listed. Express unit costs in thousands of dollars, to the nearest tenth (i.e., \$20.1 thousand). Unit costs should be expressed in terms of "then year" costs.

D. Total Costs. Enter the total cost of Element of Cost and where applicable, taking into consideration the quantity to be estimated to be procured and the unit costs.

Exhibit Fund-9b Activity group Capital Purchase Justification

IV. Narrative Justification

A. Provide complete narrative description for each applicable capability or item. This narrative justification should include sufficient information to serve as the sole justification for funding the capability or item. Include a brief description for special interest items such as ADPE Equipment equal to or great than \$1,000,000.00. The narrative description should include, but not be limited to:

1. The nature, purpose, and intended use of the capability or item(s).
2. Indicate whether a pre-investment economic analysis was performed (all items within a capability require the appropriate pre-investment analysis).
3. Indicate the dollar value of estimated savings/cost avoidance after the equipment is installed or the project is complete and the fiscal year when the savings/cost avoidance should begin. If no savings/cost avoidance should result from the purchase, an explanation must be provided to indicate why.

Department of (Component Name)
Activity group: _____
FY 20__
FY 20__ _____ Budget Estimate

PROJECTS ON THE FY __ PRESIDENT’S BUDGET

(Dollars in Millions)

| <u>FY</u> | <u>Approved Project</u> | <u>Reprog.</u> | <u>Approved Proj Cost</u> | <u>Current Proj Cost</u> | <u>Asset/Deficiency</u> | <u>Explanation</u> |
|-----------|-----------------------------------|----------------|---------------------------|--------------------------|-------------------------|--------------------|
| | Equipment except ADPE and TELECOM | | | | | |
| | Equipment - ADPE and TELECOM | | | | | |
| | Software Development | | | | | |
| | Minor Construction | | | | | |
| | Total FY ____ | | | | | |

Instructions:

Complete the form for each fiscal year required in the Budget Submission. The “Approved Project Column” is the program approved in the President’s Budget.

FY Fiscal Year of the Project.

Approved Project Project title and amount from the President’s budget.

Reprog. Amount of reprogramming which have occurred since the President’s budget.

Approved Project Cost Approved Project Cost plus/minus Reprogramming.

Current Proj Cost Current estimate of project cost

Asset/Deficiency Asset: funds excess to current project cost estimate. Excess funds may be reprogrammed to other projects that show a deficiency in this column.

Prepare the Fund-9d exhibit to show the changes between the FY PY President’s Budget Submission the FY BY1/BY2 OSD/OMB Budget Submission.

Exhibit Fund-9c Capital Budget Execution

**ACTIVITY GROUP ANALYSIS
COMPONENT/ACTIVITY GROUP:
SOURCE OF NEW ORDERS AND REVENUE
(Dollars in Millions)**

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|---|--------------|--------------|---------------|---------------|
| 1. New Orders | | | | |
| a. Orders from DoD Components: | | | | |
| Own Component | | | | |
| Appn 1 | | | | |
| Continue List by Appropriation | | | | |
| Other Services (List by Appropriation) | | | | |
| b. Orders from other Fund Activity groups (List by Activity group) | | | | |
| c. Total DoD | | | | |
| d. Other Orders: | | | | |
| Other Federal Agencies | | | | |
| Trust Fund | | | | |
| Non Federal Agencies | | | | |
| Foreign Military Sales | | | | |
| Total New Orders | | | | |
| 2. Carry-In Orders | | | | |
| 3. Total Gross Orders | | | | |
| <i><u>Industrial Funds Activities use the following: to complete the Fund – 11</u></i> | | | | |
| 4. Revenue (-) | | | | |
| 5. End of Year Work-in-Process (-) (a) | | | | |
| 6. FMS, BRAC, Other Federal, and Non-Federal orders (-) (b) | | | | |
| 7. Funded Carry-over | | | | |
| (a) The application of the percentage-of-completion method of revenue recognition should result in the elimination of most work-in-process. | | | | |
| (b) See exhibit 7a for a complete list of orders to be excluded. | | | | |

Exhibit Fund-11 Source of New Orders & Revenue

Instructions for the Preparation of Exhibit Fund-11
Source of RevenueSupply Activities use the following: to complete the Fund - 11

4. Carry-Out Orders (-)
5. Gross Sales (-)
6. Credit (-)
7. Net Sales

This Exhibit will identify the customers of each activity group at the level of detail indicated. Appropriated fund customers should be identified at the appropriation level. Be specific as to the source of funding. Entries such as OSD or Army are not acceptable on this Exhibit. Lack of specificity will indicate that the funding source is unknown and may not be considered as a legitimate source of funding. The identification will be on the basis of funded orders so that activity group activity may be linked to the appropriations for goods and services.

For line 1.a (Orders from DoD Components), show the amounts by appropriation (e.g., Army National Guard Operation and Maintenance, Army RDT&E, etc.) for orders accepted within the submitting Service/Component. For orders accepted from other Components, show the appropriation detail for significant customers.

For line 1.b (Orders from Other Fund Activity groups), show the orders accepted from other Defense Working Capital Fund Activity groups. Be specific as to the activity group.

Total New Orders on Line 1 must match data provided in the OP-32 exhibit.

For line 2, display the carry-in orders from prior fiscal years. For the Supply Management activity groups, carry-in orders represent back orders.

For line 3, add the sum of lines 1 and 2.

Line 4 will equal total gross sales shown on the Revenue and Expense Statement.

Line 5 should equal orders from line 3 that will not be sold in the current year. For Supply Management Activities, this line should equal backorders.

Components will submit summary Fund-11 exhibits for activity groups (such as Navy Research and Development) that have subdivisions and will submit a summary Fund 11 at the Component level.

The Fund-11 data will be submitted via the Select and Native Programming Data Input System (SNaP) located at <https://snap.pae.osd.mil>. The most current version of this exhibit will be found at this site.

Exhibit Fund-11 Source of New Orders & Revenue

**ACTIVITY GROUP ANALYSIS
 COMPONENT/ACTIVITY GROUP:
 CARRYOVER RECONCILIATION
 (Dollars in Millions)**

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|---|--------------|--------------|---------------|---------------|
| 1. Net Carry-In | | | | |
| 2. Revenue | | | | |
| 3. New Orders | | | | |
| 4. Exclusions: | | | | |
| FMS | | | | |
| BRAC | | | | |
| Other Federal Departments & Agencies | | | | |
| Non-Federal and Others | | | | |
| Institutional MRTFB (Navy R&D only) | | | | |
| 5. Orders for Carryover Calculation | | | | |
| 6. Weighted Composite Outlay Rate * | | | | |
| 7. Carryover Rate | | | | |
| 8. Allowable Carryover | | | | |
| 9. Balance of Customer Orders at Year End | | | | |
| 10. Work-in-progress | | | | |
| 11. Exclusions: | | | | |
| FMS | | | | |
| BRAC | | | | |
| Other Federal Departments & Agencies | | | | |
| Non-Federal and Others | | | | |
| Institutional MRTFB (Navy R&D only) | | | | |
| 12. Calculated Actual Carryover | | | | |

Exhibit Fund-11a Carryover Reconciliation

Instructions for the Preparation of Exhibit Fund-11a
Carryover Reconciliation

This exhibit compares the funded carryover reported for each activity group to allowable carryover levels as determined by applying customer appropriation outlay rates to carryover workload. Detailed explanations for excess carryover must be attached to this exhibit.

For line 1 (Net Carry-In), display carry-in orders from prior years. (Carry-in orders must agree with Year End Financial statements)

For line 2 (Revenue) must match data provided in the Fund 14.

For line 3 (New Orders) must match data in the Fund 11 and OP-32 exhibits. (net of reductions or cancellations made during the FY)

For line 4 (Exclusions), display carry-in and new orders associated with the excluded appropriations (Foreign Military Sales (FMS); Base Realignment and Closure (BRAC); Other Federal Departments & Agencies; Non-Federal and Others; and Institutional Major Range & Test Facilities Base (MRTFB)).

For line 5 (Orders for Carryover Calculation), equals line 3 less line 4. (Supporting schedules for this calculation must also be provided in your Budget submission.)

* **For line 6** (Weighted Composite Outlay Rate), calculated by applying appropriation unique outlay rates to identified carryover workload.

Supporting documentation for this calculation must accompany the exhibit. Execution year outlay rates will be used for all calculations unless approved in writing from the Director of Revolving Funds. The outlay rates used must come from the DoD Financial Summary Tables, Tab J. This data can be found at www.dod.mil/comptroller/defbudget/FY XXXX/index.html.

For line 7 (Carryover Rate), the carryover rate is determined by subtracting the weighted composite outlay rate from 100 percent.

For line 8 (Allowable Carryover), equals line 5 (Orders for Carryover Calculation) multiplied by line 7 (Carryover Rate). This is the maximum allowable carryover for the activity group.

For line 9 (Balance of Customer Orders at Year End), equal the balance of customer orders at year end before exclusions (calculation = line 1 (net carry-in) plus line 3 (new orders) minus line 2 (revenue)).

For line 10 (Work-in-progress) should equal the amount of customer work which has been performed, but not yet billed.

For line 11 (Exclusions), display carry-in and new orders associated with the excluded appropriations (FMS, BRAC, Other Federal, Non-Federal and Others, and Institutional MRTFB).

Line 12 (Calculated Actual Carryover), equals line 9 minus lines 10 and 11. This data becomes the net carry-in value used in the following year calculation.

The exhibit is required at the activity group level (except for Navy Research and Development activities. The Navy R&D submission is required at the field activity level. The Army must report its Industrial Operations Activity Group by Depot and Ordnance components.

Requests for exceptions to carryover policy must be submitted to Director of Revolving Funds separate from the budget documents.

Exhibit Fund 11a Carryover Reconciliation

CASH MANAGEMENT PLAN
Component:
Activity group:
(Dollars in Thousands)

Provide a monthly and cumulative phasing of disbursements, collections, transfers in or out, appropriations, net outlays, beginning and ending cash balances for the current and budget year(s). Put each year on a separate page.

Current Year

Monthly

| | Disbursements | | | Collections | | | Net Outlays | <i>Total</i> |
|-----------|----------------------|------------------|--------------|--------------------|-----------------------|------------------|--------------------|-----------------------------|
| | <u>Operations</u> | <u>Transfers</u> | <u>Total</u> | <u>Operations</u> | <u>Appropriations</u> | <u>Transfers</u> | <u>Total</u> | <i>Cash Balances</i> |
| | | <u>OUT</u> | | | | <u>IN</u> | | |
| October | | | | | | | | |
| November | | | | | | | | |
| December | | | | | | | | |
| January | | | | | | | | |
| February | | | | | | | | |
| March | | | | | | | | |
| April | | | | | | | | |
| May | | | | | | | | |
| June | | | | | | | | |
| July | | | | | | | | |
| August | | | | | | | | |
| September | | | | | | | | |

Submit Excel workbook (by business area including total fund roll up) to the OUSD(C) Revolving Fund Directorate’s Cash Manager.

Exhibit Fund 13 Cash Management Plan

CASH MANAGEMENT PLAN
Component:
Activity group:
(Dollars in Thousands)

Current Year

Cumulative

| | Disbursements | | | Collections | | | Net Outlays | Total |
|-----------|--------------------------|-------------------------|---------------------|--------------------------|------------------------------|-------------------------|---------------------|----------------------------|
| | <u>Operations</u> | <u>Transfers</u> | <u>Total</u> | <u>Operations</u> | <u>Appropriations</u> | <u>Transfers</u> | <u>Total</u> | <u>Cash Balance</u> |
| | | <u>OUT</u> | | | | <u>IN</u> | | |
| October | | | | | | | | |
| November | | | | | | | | |
| December | | | | | | | | |
| January | | | | | | | | |
| February | | | | | | | | |
| March | | | | | | | | |
| April | | | | | | | | |
| May | | | | | | | | |
| June | | | | | | | | |
| July | | | | | | | | |
| August | | | | | | | | |
| September | | | | | | | | |

Cash Balance Beginning of FY (+/-) Total Net Outlays = Cash Balance End of FY

Submit Excel workbook (by business area including total fund roll up) to the OUSD(C) Revolving Fund Directorate’s Cash Manager.

Exhibit Fund-13 Cash Management Plan

**DEFENSE WORKING CAPITAL FUND
COMPONENT/ACTIVITY GROUP:
REVENUE AND EXPENSES
(Dollars in Millions)**

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|--|-------------------------|--------------|---------------|---------------|
| Revenue | XX,XXX.X ^A | | | |
| Gross Sales | (XX,XXX.X) | | | |
| Operations | (XX,XXX.X) ^B | | | |
| Capital Surcharge | (XX,XXX.X) | | | |
| Depreciation excluding Major Construction | (XX,XXX.X) | | | |
| Major Construction Depreciation | (XX,XXX.X) | | | |
| Other Income | XXX.X ^C | | | |
| Refunds/Discounts (-) | - XXX.X | | | |
| Total Income: | XX,XXX.X ¹ | | | |
| Expenses | | | | |
| Cost of Material Sold from Inventory | XX,XXX.X ^D | | | |
| Salaries and Wages: | | | | |
| Military Personnel Compensation & Benefits | XX,XXX.X | | | |
| Civilian Personnel Compensation & Benefits | XX,XXX.X | | | |
| Travel & Transportation of Personnel | XX,XXX.X | | | |
| Materials & Supplies (for internal Operations) | XX,XXX.X | | | |
| Equipment | XX,XXX.X | | | |
| Other Purchases from Revolving Funds | XX,XXX.X | | | |
| Transportation of Things | XX,XXX.X | | | |
| Depreciation – Capital | XX,XXX.X ^E | | | |
| Printing and Reproduction | XX,XXX.X | | | |
| Advisory and Assistance Services | XX,XXX.X | | | |
| Rent, Communication, Utilities, & Misc Charges | XX,XXX.X | | | |
| Other Purchased Services | <u>XX,XXX.X</u> | | | |
| Total Expenses: | XX,XXX.X ² | | | |
| Operating Result | XX,XXX.X ^F | | | |
| Plus or Minus Adjustments Affecting NOR (specify) | XX,XXX.X ^G | | | |
| Net Operating Result | XX,XXX.X | | | |
| Other Changes Affecting AOR (specify) | XX,XXX.X | | | |
| Accumulated Operating Result | XX,XXX.X | | | |
| Non-Recoverable Adjustment Impacting AOR (specify) | XX,XXX.X | | | |
| Accumulated Operating Results for Budget Purposes | <u>XX,XXX.X</u> | | | |

Note: For Supply Management, expense estimates should be consistent with estimated surcharge elements included in Exhibit SM-5a except for the current year. Current year should reflect current estimates and should not necessarily be identical to the previous budget submissions as required for the SM-5a.

Exhibit Fund-14 Revenue and Expenses

Instructions for Statement of Revenue and Expenses
Keyed to Statement Footnotes

- A. For supply management activity groups, the line should reflect **Gross** sales at standard. Credit returns should be displayed in the Refunds/Discounts line.
- B. Capital Surcharge represents the increase in prices (and projected revenue) due to surcharging the capital budget requirement to provide sufficient cash to support the capital budget. This line is blank if a capital surcharge is not included in price (also see note F).
- C. Other income is to include pass-through revenue.
- D. Cost of material sold from inventory includes the value of material sold from inventory and the cost of repair. Both wholesale and retail costs should be included.
- E. Depreciation expenses reflect actual or estimated depreciation of all assets defined by the capital program.
- F. This represents the “gross” result from operations, prior to adjustments.
- G. Includes all “Other Adjustments” to NOR, multiple lines may be used. (ex. Capital Surcharge reservation here should offset capital surcharge in revenue. Include any appropriations realized to offset current period expenses (e.g., Pass-through’s, appropriations to cover underutilized plant capacity). Appropriations for war reserve material do not offset current period expenses, do not affect NOR, and should be subtracted if reported as part of revenue or be reported as an adjustment below NOR. This includes
- (1) Transfers to correct for prior period over- or under-pricing;
 - (2) Other approved transfers for collections from customers for which an expense has not been recorded;
 - (3) Other collections (that are not transferred out, but placed in some sort of reserve) from customers for which an expense has not been recorded; or,
 - (4) Unfunded expenses resulting from a policy change, which must be deleted prior to determining NOR.
 - (5) Changes in Work-in-Process or Inventory for Activity Retention.
- H. The Net Operating Result (NOR) is the fiscal year gain or loss from operations. NOR will be carried into Accumulated Operating Results (inception to date) in the equity portion of the balance sheet. NOR and AOR are key performance indicators.

For the supply management activity groups, expenses shall be recorded as obligations, except for depreciation and cost of material sold from inventory (Inventory Procurement Expenses).

Additional line entries are required for supply management activity groups. For each element in the surcharge applying to material such as condemnations or inventory maintenance, a separate line should be added reflecting the obligations for these items.

The Fund-14 data will be submitted via the Select and Native Programming Data Input System (SNaP) located at <https://snap.pae.osd.mil>. The most current version of this exhibit will be found at this site.

Exhibit Fund-14 Revenue and Expenses

Instructions for the Preparation of Exhibit Fund-15 Fuel Data

The purpose of Fund-15, Fuel Data, is to provide reconciliation between the supply management, the Defense Logistics Agency, and the customer budgets. Prepare Fund-15 for prior year actual, current year, and budget year(s). The Defense Stock Fund will prepare the exhibit for those stocks procured by DFSC only. Prepare exhibit for each division which procures fuel and a consolidated exhibit. Instructions for preparation of Fund-15, Fuel Data:

1. Barrels. Use 42 gallons per barrel. Show barrels in nearest tenth of million barrels.
2. Cost per Barrel. Use cost in dollars and cents per barrel.
3. Extended Price. Multiply number of barrels by cost per barrel. Use dollars in millions and tenths of a million.
4. Product. List by product.
5. Stabilized Price. Show current approved stabilized price.

USTRANSCOM must submit separate Fund 15 exhibits for its Organic, Commercial and Military airlift missions.

Exhibit Fund-15 Fuel Data

**DEFENSE WORKING CAPITAL FUND
COMPONENT/ACTIVITY GROUP:**

MATERIAL INVENTORY DATA

(Dollars in Millions)
FISCAL YEAR

| | | | |
|--------------|---------------------|------------------|--------------|
| | ----- | Peacetime | ----- |
| <u>Total</u> | <u>Mobilization</u> | <u>Operating</u> | <u>Other</u> |

Material Inventory BOP

Purchases

- A. Purchases to Support Customer Orders (+)
- B. Purchase of long lead items in advance of customer orders (+)
- C. Other Purchases (list) (+)
- D. Total Purchases

Material Inventory Adjustments

- A. Material Used in Maintenance (and billed/charged to customer orders) (-)
- B. Disposals, theft, losses due to damages (-) *
- C. Other reductions (list) (-)
- D. Total inventory adjustments

Material Inventory EOP

Complete one exhibit for each fiscal year, FY PY, FY CY, FY BY1, and FY BY2 for the non-supply activity groups (depot maintenance, etc.). Inventory pricing will be based on current policy on inventory valuation.

*This would also include reductions due to obsolescence. All other reasons for inventory reductions would be listed in item C.

Exhibit Fund-16 Material Inventory Data

Fund Summary by
Component: _____
Date: _____

(\$ in Millions)

Part I Operating and Capital Budget

| <u>Activity group</u> | Operating Budget (Total Cost) | | | | Capital Budget (Obligations) | | | | Appropriation Request | | | |
|-----------------------|--|-----------|------------|------------|---|-----------|------------|------------|----------------------------------|-----------|------------|------------|
| | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> | <u>PY</u> | <u>CY</u> | <u>BY1</u> | <u>BY2</u> |

Summarize data from detail schedules. Round data to the nearest tenth of a million (e.g., show \$10.4 million, not \$10 million).

Component Total

Part II Work Load Assumptions

Indicate, by activity group, the overall work load change (in percent) from year to year. Describe the basis for the estimated changes.

Part III Productivity Assumptions Incorporated into Estimated Costs and Prices

Summarize, by activity group and in percentage terms, the estimated productivity assumed in estimating costs and setting prices.

Part IV Performance Measures

Summarize, by activity group, primary performance measures for business outputs which describe effectiveness, timeliness, quality, or customer satisfaction.

Military Personnel
By Average End Strength

Service or Agency: _____

Activity group: _____

Personnel Summary:

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> | <u>Change CY/BY1</u> | <u>Change BY1/BY2</u> |
|---|--------------|--------------|---------------|---------------|--------------------------|---------------------------|
| Active Average Military End Strength | | | | | | |
| Army | | | | | | |
| Officer | | | | | | |
| Enlisted | | | | | | |
| Navy | | | | | | |
| Officer | | | | | | |
| Enlisted | | | | | | |
| Marine Corps | | | | | | |
| Officer | | | | | | |
| Enlisted | | | | | | |
| Air Force | | | | | | |
| Officer | | | | | | |
| Enlisted | | | | | | |
| Total Active Average Military End Strength | | | | | | |

The average strength will be calculated using the average fill rate for the three prior years.

DEPARTMENT OF (COMPONENT NAME)

Activity group: _____

**Summary of Base Support
(\$ in Millions)**

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|--|---------------------|---------------------|----------------------|----------------------|
| Chapel & Chaplain Services | | | | |
| Command Element | | | | |
| Common Use Facility Operations, Maintenance, Repair, & Construction | | | | |
| Disaster Preparedness | | | | |
| Environmental Compliance | | | | |
| Fire Protection | | | | |
| Libraries | | | | |
| Morale & Fitness Support | | | | |
| Police Services | | | | |
| Safety | | | | |
| Shuttle Services | | | | |
| Admin Services | | | | |
| Audio/Visual Services | | | | |
| ADP/Automation Services | | | | |
| Civilian Personnel Services | | | | |
| Clubs | | | | |
| Communication Services | | | | |
| Community Support Services | | | | |
| Confinement & Detention Centers | | | | |
| Custodial Services | | | | |
| Education Services | | | | |
| Engineering Support | | | | |
| Equipment, Operation, Maintenance, & Repair | | | | |
| Explosive Ordnance | | | | |
| Facilities & Real Property Support | | | | |
| Facility Maintenance & Repair | | | | |
| Finance & Accounting | | | | |
| Food Services | | | | |
| Health Services | | | | |
| Housing & Lodging Services | | | | |
| Information Services | | | | |
| Installation Retail Supply & Storage Operation | | | | |
| Laundry & Dry Cleaning | | | | |
| Legal Services | | | | |
| Military Personnel Support | | | | |
| Mobilization Support | | | | |
| Mortuary Services | | | | |
| Printing & Reproduction | | | | |
| Purchasing & Contracting Services | | | | |
| Refuse Collection & Disposal | | | | |
| Resource Management | | | | |
| Training Services | | | | |
| Transportation Services | | | | |
| Utilities | | | | |
| Weather Services | | | | |
| Other Support | | | | |

Provide narrative explanations of changes in levels of support that, as a tenant, is a reimbursable cost of operation paid to a host activity or, as the host activity, is financed as a direct cost of operation.

Exhibit Fund-22 Summary of Base Support

DEPARTMENT OF (COMPONENT NAME)

ACTIVITY GROUP: _____

Summary of Personnel Data - Part I

| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> | <u>FY BY2</u> |
|--|--|--------------|---------------|---------------|
| <u>Direct Labor:</u> | Show civilian personnel data in hours, FTEs, work years, or end strength, as requested. | | | |
| Regular Hours | Exclude military personnel from all data. | | | |
| Paid Leave Hours | | | | |
| Overtime Hours | | | | |
| Total Hours | Compute FTEs by dividing the applicable total number of hours by the number of hours in a work year. | | | |
| FTEs | | | | |
| <u>Production Overhead (Indirect):</u> | Show the percent of total FTEs which are direct labor, production overhead, general & administrative, and the sum of production overhead plus general and administrative FTEs. | | | |
| Regular Hours | | | | |
| Paid Leave Hours | | | | |
| Overtime Hours | | | | |
| Total Hours | Show the number of hours per FTE used to convert hours to FTEs for each fiscal year. | | | |
| FTEs | | | | |
| <u>General & Administrative (G&A):</u> | Show total end strength levels. | | | |
| Regular Hours | | | | |
| Paid Leave Hours | FTE utilization rates are calculated by dividing the total number of FTEs by the quotient of: | | | |
| Overtime Hours | | | | |
| Total Hours | | | | |
| Full-time Equivalencies (FTEs) | $\frac{E/S \text{ Begin year} + E/S \text{ End Year}}{2}$ | | | |
| <u>Total:</u> | | | | |
| Regular Hours | | | | |
| Paid Leave Hours | | | | |
| Overtime Hours | | | | |
| Total Hours | | | | |
| <u>Total FTEs:</u> | | | | |
| Percent Direct Labor | | | | |
| Percent Production Overhead | | | | |
| Percent G&A Labor | | | | |
| Percent Production Overhead and General and Administrative | | | | |
| <u>Hours per FTE</u> | | | | |
| <u>End Strength</u> | | | | |
| <u>FTE Utilization Rate</u> | | | | |

Exhibit Fund-24 Summary of Personnel Data

Revenue and Expense Phasing Plan
Component: _____
Activity group: _____

FY _____

(Dollars in Thousands)

| | Monthly Plan | | | | | |
|-----------|---------------------|-----------------|-----------------------------------|------------|-----------------------------------|------------|
| | <u>Revenue</u> | <u>Expenses</u> | <u>Adjustments to NOR (1)</u> | <u>NOR</u> | <u>Adjustments to AOR (1)</u> | <u>AOR</u> |
| October | | | | | | |
| November | | | | | | |
| December | | | | | | |
| January | | | | | | |
| February | | | | | | |
| March | | | | | | |
| April | | | | | | |
| May | | | | | | |
| June | | | | | | |
| July | | | | | | |
| August | | | | | | |
| September | | | | | | |

Instructions: Provide a monthly and cumulative phasing of revenue, costs, and operating results (NOR and AOR) for all years.

| | Cumulative Plan by Month | | | | | |
|-----------|---------------------------------|-----------------|-----------------------------------|------------|-----------------------------------|------------|
| | <u>Revenue</u> | <u>Expenses</u> | <u>Adjustments to NOR (1)</u> | <u>NOR</u> | <u>Adjustments to AOR (1)</u> | <u>AOR</u> |
| October | | | | | | |
| November | | | | | | |
| December | | | | | | |
| January | | | | | | |
| February | | | | | | |
| March | | | | | | |
| April | | | | | | |
| May | | | | | | |
| June | | | | | | |
| July | | | | | | |
| August | | | | | | |
| September | | | | | | |

Submit Excel workbook (by business area including total fund roll up) to OUSD (C) Revolving Fund Directorate

(1) Provide Specify type and amount of each proposed adjustment.

Exhibit Fund-26 Revenue and Expense Phasing Plan

EXECUTION PERFORMANCE
ANALYSIS

Quarter: _____
(Component and Activity Group Name)

For
Page X of Y

| <u>PERFORMANCE MEASURES</u> | <u>PLAN CURRENT QUARTER</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>ANNUAL PLAN</u> | <u>PROJECTED END YEAR</u> | <u>PROJECTED VARIANCE</u> |
|-----------------------------|-----------------------------|---------------|-----------------|--------------------|---------------------------|---------------------------|
|-----------------------------|-----------------------------|---------------|-----------------|--------------------|---------------------------|---------------------------|

UNIT COST: Use as much space as required. Identify the units (hours, miles, transactions)

TOTAL ORDERS RECEIVED (This section Dollars in Millions)

AOR
NOR
REVENUE
COST

ENDING TREASURY CASH BALANCE (hard copy and electronic submission required)

NET OUTLAYS
COLLECTIONS
DISBURSEMENTS

ACCOUNTS RECEIVABLES
ACCOUNTS PAYABLE
NEW ADVANCE BILLINGS CURRENT FY/TOTAL UNLIQUIDATED ADVANCE BILLINGS

ANALYSIS: Summarize important facts that help explain the Activity’s performance. (use bullets in this section)

RECOMMENDED ACTIONS: Describe actions recommended for this Activity group.

YEAR END PROJECTION ASSUMPTIONS: Outline the key assumptions used to project year end performance

EXECUTION PERFORMANCE
ANALYSIS

Quarter: _____
(Component and Activity Group Name)

For
Page X of Y

| <u>PERSONNEL DATA</u> | <u>PLAN CURRENT QUARTER</u> | <u>ACTUAL</u> | <u>VARIANCE</u> | <u>ANNUAL PLAN</u> | <u>PROJECTED END YEAR</u> | <u>PROJECTED VARIANCE</u> |
|---------------------------|-------------------------------------|---------------|-----------------|------------------------|-------------------------------|-------------------------------|
|---------------------------|-------------------------------------|---------------|-----------------|------------------------|-------------------------------|-------------------------------|

End Strength
Work Years (FTE's)

RIF's (E/S and date)
(Cost \$ in Millions)

VSIP/VERA (E/S and date)
(Cost \$ in Millions)

ATTRITION RATE)

DIRECT LABOR HOURS (Depot, Ordnance, and R&D Activity Groups only)
Regular Hours
Overtime Hours
Contractor Hours

CAPITAL INVESTMENT PROGRAM OBLIGATIONS AND OUTLAYS

ANALYSIS/ ISSUES: Use additional pages if needed.

RECOMMENDED CORRECTIVE ACTIONS: Use additional pages if needed

Exhibit Fund-28 Execution Performance Analysis

Unutilized and Underutilized Plant Capacity (UPC)

Component: _____

ACTIVITY GROUP: _____ **DATE:** _____

PART I.

The purpose of this exhibit is to display plant capacity indices and mobilization funding requirements for WCF industrial activities. Unutilized (Reserve) or Underutilized Plant Capacity costs are excluded from the DWCF rate structure. Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement and is not funded with UPC funds. This exhibit applies to all activities of industrial activity groups whether or not that activity group has an activity (or activities) where their respective Service is identifying UPC funding in the corresponding Service Operation and Maintenance (O&M) budget submission. Thus, at a minimum, the capacity-related indices for items numbered one through three will be completed for each industrial activity.

| | | | |
|--|-----------------------|--------------|---------------|
| | (\$ in Millions) | | |
| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> |
| | | | <u>FY BY2</u> |
| | <u>Activity Group</u> | | |

Activity #1

1. Total Capacity Index (DLHs/100 percent)
2. Utilized Capacity Index (DLHs/"x" percent)
3. Reserve Capacity Index (DLHs/"x" percent)
4. Funded UPC (\$ in Millions)

Activity #2

1. Total Capacity Index (DLHs/100 percent)
2. Utilized Capacity Index (DLHs/"x" percent)
3. Reserve Capacity Index (DLHs/"x" percent)
4. Funded UPC (\$ in Millions)

Total Funded UPC (\$ in Millions)

PART II. For each activity with an amount in the Funded UPC category in Part I above, the following is required:

- A. Narrative describing the nature of these UPC costs being incurred at the activity. Provide justification as to what is being accomplished with these funds.
- B. Breakdown of costs by element.

| | | | |
|--|------------------|--------------|---------------|
| | (\$ in Millions) | | |
| | <u>FY PY</u> | <u>FY CY</u> | <u>FY BY1</u> |
| | | | <u>FY BY2</u> |

Real Property Maintenance
 Equipment Maintenance
 Utilities
 Other (specify)
 Total

Exhibit Fund 30 – Underutilized Plant Capacity

Unutilized and Underutilized Plant Capacity (UPC)**Component:** _____

Activity group: _____ Date: _____

Notes:

- (1) The Total Capacity Index is calculated in accordance with the instructions in Chapter Three of DoD 4151.18-H (Depot Maintenance Capacity and Utilization Measurement Handbook). This index represents the amount of work load, expressed in actual Direct Labor Hours (DLHs) that an activity can effectively utilize annually on a single shift 40-hour week basis, while producing the product mix that the activity is designed to accommodate.
- (2) The Utilized Capacity Index is expressed in DLHs and represents the amount of DLHs required by the activity to execute funded work load requirements. The associated percentage is that portion of the Utilized Capacity Index to the Total Capacity Index.
- (3) The Reserve Capacity Index is expressed in DLHs and represents capacity that is not utilized but is being retained for sound reasons of military mobilization and surge necessity. The associated percentage is that portion of the Reserve Capacity Index to the Total Capacity Index.
- (4) The Funded UPC is determined by applying the following general rule: Any month during which mobilization facilities are not used, or if utilized only 20 percent or less of available work days, the pro-rata support costs for those facilities will be included in the UPC funding. Mobilization program expenses related to UPC may include both maintenance and labor costs related to the program. The amount reported is funded in the respective Service O&M budget submission.
- (5) Total Funded UPC is the Activity Group cumulative amount.
- (6) In Part II, items reported in the cost element Other should be fully identified. This could include items of a military-unique nature and, if so, should be sufficiently described.

Exhibit Fund 30 – UPC Justification