

CHAPTER 9
DEFENSE WORKING CAPITAL FUNDS
ACTIVITY GROUP ANALYSIS
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CHAPTER 9

DEFENSE WORKING CAPITAL FUNDS
ACTIVITY GROUP ANALYSIS**0901 GENERAL****090101 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 subaccounts (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, high level 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 provided for budget formulation and are to be used as the basis for preparing Budget Estimate Submissions (BES).

A. Cash Management

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.

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. Since cash management has been decentralized, there is no longer a requirement for the Defense Finance and Accounting Service (DFAS) to implement automatic advance billing procedures when overall Departmental cash levels fall below \$1 billion, and it has been determined that the cash shortage was not caused by an anomaly. Volume 11B will be updated to reflect this change in policy.

The major points included in the policy are:

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

- 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.*

- 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.

- 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.

A goal of the DWCF is to eliminate the use of Advance Billing of Customers to maintain cash solvency unless required to avoid Anti-Deficiency Act Violations. The DoD Authorization Act of FY 1998 Section 1011 requires that the Secretary of the Military Department notify Congress within 30 days after an advance billing is made. Any requirements for advance billings by a Service Component or Activity Group will be coordinated in advance with the Director for Revolving Funds. A copy of the letter to Congress will also be provided to the Revolving Funds Directorate.

- The operational control of actions taken by each DWCF activity, which result in cash disbursements and collections, always has and continues to reside with the Components and Agencies. Decentralizing cash management was done to provide the Components' and Agencies' managers additional control of and responsibility for their operations, as cash management is an integral part of operational management. The policy requires that each level of management within the Department participate in the execution of the policy in order to insure results are achieved 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. Of course, the performance and quality of the source must be considered as well. When comparing costs of organic or commercial sources, both direct and indirect costs are to be included in the evaluation.

1. Depreciation expenses shall be calculated and accumulated using the straight-line method based on the capitalized amount less residual value, and divided equally among accounting periods during the asset's useful life based on established depreciation schedules. *Residual value will be used in the calculation only if it exceeds 10% of the cost of the asset.* The depreciation schedules to be used for Fund activities are as follows: *For assets acquired prior to October 1, 1999: Facilities Construction (including Minor Construction) – 20 years; Equipment purchases, other than ADPE and Telecommunications Equipment – 10 years; ADPE, Commercial Software, and Telecommunications Resources – 5 years; General Purpose Vehicles – 5 years; Internally Developed Software – 10 years. For assets acquired on or after October 1 1999: General Purpose Vehicles (includes heavy duty trucks and buses), ADP Systems and Hardware (Computers and Peripherals), High Tech Medical Equipment, Equipment used in RDT&E, Radio and Television Broadcasting Equipment, Commercial Software – 5 years; Printing, Publishing, and Duplicating Equipment; Telecommunications Equipment and Towers, Internally Developed Software – 10 years; All Other Equipment, Machinery, and Automated Warehouse Retrieval Systems – 12 years; Vessels, Tugs, Barges, and Similar Water Transportation Equipment (non-national Defense PP&E vessels/ships) – 20 years; Steam (12.5K pounds per hour or more) and Electrical Generation Equipment (500 Kilowatt or more) – 20 years; Improvements made of added to Land (i.e. Fences, Roads, Bridges, Sewers, Ships and Railroad Wharves and Docks, Dry Docks) including improvements made to Stewardship Land – 20 years; Buildings, Leasehold Improvements to Buildings (includes improvements to Heritage Buildings), Hangars, Warehouses, Fuel Storage Facilities, Air Traffic Control Towers, and Other Real Property Structures – 40 years.*

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

a. For equipment transferred into a 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.

b. For capital assets that are transferred to a 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

c. Depreciation of capital equipment will be fully reflected in the operating costs and rates of Fund businesses.

C. Capital Investments

1. With the exception of major construction and items listed in paragraph D.1, acquisition of all capital assets for use by businesses within the Fund are 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. Capital assets include depreciable property, plant, equipment, and software developed, manufactured, transferred or acquired during a fiscal year for a determinable cost of \$100,000 or more, effective October 1, 1995, and having a useful life of two years or greater. *Once assets are capitalized by the DWCF activity, they will continue as a capital asset and depreciated until the book value of the asset reaches zero or its salvage value as appropriate. Changes in the capitalization threshold will not impact existing capital assets unless directed by higher authority.*

2. These assets will be funded through the capital budget and their costs will be depreciated according to depreciation schedules *found above and in Volume 2a, paragraph 010219C*. Fund resources necessary for 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.

3. 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.

4. 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 in-house or contractual effort; or (3) the modernization of existing software that expands and/or enhances its existing capabilities.

a. 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 four phases: (1) planning and system design, (2) management and technical support during development, (3) system development including software modification and conversion, and (4) deployment, including environmental and operational test and installation. The inclusion of these phases and related cost elements will ensure that software development budgets are properly prepared. Technical and maintenance software support occurring after system installation are treated in *DWCF* as operational expenses. (Refer to the instructions for the Fund-9a exhibit of the Capital Investment Summary, paragraph C, Software Development/Modernization, of this chapter for those detailed costs to be captured in software development budgets).

b. Software amounts included in *DWCF* capital budget submissions should include those software development or acquisition efforts for the benefit of the *DWCF* activity, and exclude software developed or acquired for a specific customer order. (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). 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.

c. Software projects may be accomplished by 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, the request for capital budget authority (Fund-9b) for each deliverable module should be requested in the budget year the module is started, and should be funded in an amount sufficient to finance the specific module to its completion. However, budget justification material for development of *DWCF* capital investment projects involving software must disclose the total estimated costs of all software development efforts associated with the applicable system with which the software is to be utilized, including the cost of software development efforts of other modules funded separately from the specific *DWCF* capital investment project being justified.

d. While the costs of acquiring ADP equipment should be excluded from the cost of software development projects, such costs also should be disclosed in the *DWCF* capital investment budget justification material for the software development project.

e. Budget submission and justification should be documented on Exhibit Fund-9a, 9b, and 9c. Exhibit Fund -9a, "Capital Investment Summary," represents the summary data of all software deliverables requested for a system. Exhibit Fund-9b, "Capital Investment Justification," provides detailed cost data and narrative justification for each module of a system. Exhibit Fund-9a and Fund-9b data should agree with, and also may be used for cross referencing, Exhibit 43-IT2 of the Information Technology budget. Exhibit Fund-9c, "Capital Investment and Financing Summary," outlines authority obligations, outlays, unobligated balances, and unexpended obligations by fiscal year.

f. The following shows, as an example, severable deliverable modules of a fictitious financial management system:

- XYZ FINANCIAL MANAGEMENT SYSTEM SOFTWARE MODULES

SOFTWARE DEVELOPMENT, MODIFICATION, OR CONVERSION PHASE

Deliverables

- a. Cash Management Module
- b. Property Control
- c. Inventory Control
- d. Receivables
- e. Payables
- f. Cost Accounting
- g. Reporting

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 \$100,000.

5. Facility investment of \$100,000 or more but less than \$500,000 for a new or replacement facility, or for changes in the function of a facility, will be funded through the minor construction line of the capital budget and depreciated. *For minor construction projects involving the correction of life threatening, health, or safety problems, the upper limit is increased to \$1,000,000.*

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

a. 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. Leasing also may be used as a means of obtaining near-term benefits from productivity improvement opportunities until sufficient data to verify the benefits of procurement can be developed.

b. 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.

c. 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.

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

8. 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), beyond economical repair, or inoperative and unusable assets; and environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements.

9. 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 project of \$1,000,000 and over. A cost analysis will be used for projects under \$1,000,000.* 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. The scope of analysis shall be tailored depending on the dollar value of the project. These analyses shall be maintained by the originating office of the DoD Component as projects documentation support for the Capital Budget submission as well as program execution.

a. The four capital budget investment categories are: Automated Data Processing (ADP) and Telecommunications Equipment; Non-ADP Equipment; Minor Construction (*\$500,000 or less for most projects, \$1,000,000 or less for projects impacting health, safety or environment*); and Software development.

b. Capital budget projects in the four investment categories shall also identify one of the following primary reasons for justifying the investment: replacement; productivity; new mission; or environmental.

c. There are two exceptions that may apply in lieu of performing a pre-investment analysis. In both instances, an exception justification statement shall be prepared documenting the requirement or authority for the exemption claimed. Exemption statements shall be validated as would a pre-investment analysis and approved through DoD Component review channels.

(1) Environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements including directed action by higher DoD or Component authority which precludes choice among alternatives.

(2) DoD instruction or directive waives the requirement (e.g., equipment age or condition replacement criteria).

d. 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.

- 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, and rational and data sources.

- Payback shall be the primary economic indicator used for cost comparisons to rank order projects up to \$1,000,000 within the investment categories of each activity group.

e. An 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.

- 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.

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

- Benefit to Investment Ratio (BIR) shall be the primary economic indicator used to rank order projects of \$100,000 or more within the investment categories of each activity group.

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

10. Annually, each activity within the DWCF shall prepare post-investment analyses. *Post investment analysis will only be prepared for those projects with a unit cost over \$1,000,000 and should be limited to recurring type investments where lessons learned in prior projects would influence future investment decisions. For example, an activity is investing \$5 million in similar new equipment over a 3 year period. A post investment analysis would be required to show how equipment being purchased in the last year of the purchase cycle has demonstrated cost savings over purchases at the beginning of the buying periods.* The format and technique for each post-investment analysis shall be similar to the cost comparison or economic analysis used for the project justification. The post-investment analyses shall be retained for ready review for five years.

11. The total annual capital budget approved for each Component by the Congress during review of the Fund may only be exceeded to the extent that projects which were included in the operating budget based on approved expense/investment criteria must be executed as capital budget items due to revised cost estimates. Transfer of projects from the operating budget to the capital budget reduces the amount earned in the operating budget. Exceeding the total capital budget (the total includes amounts reprogrammed) is an Anti-Deficiency Act violation.

Each Component may reprogram capital funds between activity groups; however, the maximum annual increase in any one activity group must be less than \$10 million for each capital investment category

approved in the President's budget; i.e., ADP equipment and telecommunications, non-ADP equipment, minor construction, and software development. Reprogramming into an activity group's capital budget from the operating budget does not count against the \$10 million threshold.

Only those capital asset projects that have been included in a President's budget for the DoD Component may be financed through the Capital Investment Program (CIP). However, in the year of execution, substitutions may be made for projects when delays are incurred in placing the approved projects on contract or when operational necessity warrants. The following approval levels and dollar threshold apply to changes to projects approved in the capital budget section of the AOB including re-programming, substitutions, cancellations and additions:

(1) All *current year* adjustments or changes to capital projects that are equal to, or greater than \$1,000,000 shall be approved by the *Director for Revolving Funds*.

(2) All *current year* adjustments or changes between categories of capital projects (i.e., minor construction, equipment, ADP equipment and telecommunications, non-ADP equipment and software development) or activity groups that increase a category or a activity group by a cumulative amount equal to, or greater than \$1,000,000 within a program year shall be approved by the *Director for Revolving Funds*.

If either of these thresholds is breached, then substitutions must be approved by the *Director for Revolving Funds* prior to their initiation. Subdividing of projects is not allowed.

(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. Other than these approved adjustments, the only time after September 30 that a prior year CIP authority will exceed its obligations is when de-obligations occur in a prior year CIP after September 30.*

(4) *Capital obligation authority is automatically provided for prior year within-scope increases of less than \$100,000 provided the unobligated balance in the prior fiscal year capital program is sufficient to finance the increase. Prior year within-scope increases of \$100,000 or greater or increases of less than \$100,000 for which there is no unobligated balance will be approved by the Directorate for Revolving Funds. The request should propose, when possible, equal offsetting reductions to the current year capital authority to finance the prior year increase. If an activity cannot fully obligate its current year program and can justify a request for additional current year authority in the following fiscal year, the activity should submit such a request (including justification) to the Revolving Funds Directorate for each capital purchase line item NLT August 5 of each fiscal year. Approved adjustments to the prior year CIP will be included in the subsequent year's capital purchase apportionment request to OMB. Normally, prior year CIP authority will not be approved above the level requested by DoD in the President's Budget and approved by the Congress. However, prior year CIP authority may be increased above the President's Budget approved levels for high priority and unanticipated purposes (e.g. retroactive safety, environmental, or audit finding related requirements). Requests to increase prior year CIP authority received after August 5th (for which there is no apportioned contract authority) should propose offsetting decreases to the current year CIP authority.*

D. Exclusions from the Capital Purchases Program

The following are mandatory exclusions from the Fund capital purchases program and must be financed directly from appropriated funds:

1. Major Range and Test Facility Activities Items (equipment and minor construction) that meet the DoD investment capitalization criteria for use by major ranges and test facility bases operating within the Fund.
2. Military and tenant support functions.
3. Aircraft, ships, barges, and general-purpose passenger-type vehicles.

4. Equipment and minor constructions projects purchased to meet mobilization requirements, but not used during peacetime operations.
5. Equipment initially procured and usually furnished as part of a weapon system and/or support system to include initial common support equipment for depot maintenance support of new weapon systems.
6. Equipment normally funded by appropriated funds and provided to contractors as Government-furnished equipment to be incorporated into, used in conjunction with, or consumed in the production of, an end product. (Such equipment should be funded by appropriated funds and provided to the applicable *DWCF* activity at no cost to the *DWCF* activity.)
7. Minor construction projects for a non-*DWCF* activity or military support function.
8. Construction and facility investment projects that exceed the amount specified in 10 U.S.C. 2805 for funding from accounts available for operations and therefore must be funded by the Military Construction appropriation.
9. Environmental projects financed or submitted for funding by the Defense Environmental Restoration Account.
10. Capital investments for morale, welfare and recreation activities.
11. Such other exclusions as may be approved by the USD (C).

E. Construction

1. Minor construction projects of \$500,000 or more shall be funded within the Military Construction appropriation.
2. Effective in FY 1996, 10 U.S.C. 2805(c)(1) 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 from \$300,000 to \$1,000,000. However, projects costing \$500,000 or more must still be approved by the USD (C) and identified on the AOB prior to execution to avoid an Anti-Deficiency Act violation. Reprogramming thresholds identified in paragraph 090103.C.11 still apply.
3. Effective in FY 1996, 10 U.S.C. 2805(c)(1)(B) was amended to increase the threshold for minor construction projects from \$300,000 to \$1,000,000 for activities designated under the DoD Laboratory Demonstration Program. Fund activities designated to participate in the DoD Laboratory Revitalization Demonstration Program must still obtain prior USD(C) for projects costing over \$500,000 and have it separately identified on the AOB prior to execution of the project to avoid an Anti-Deficiency Act violation. Reprogramming thresholds for the capital asset program identified in paragraph 090103.C.11 still apply. The authority for the Laboratory Revitalization Demonstration Program expires on September 30, 1998.
4. Project planning and design costs 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.

F. Mobilization/Surge Costs and War Reserve Material

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.

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.

1. War Reserve Material. Initial procurement of war reserve material will be funded by a direct appropriation to the Fund. Such appropriated amounts for secondary items shall be reflected as a separate goal within the applicable Supply Management or Commissary Resale activity group AOB.

2. Unutilized and Underutilized Plant Capacity.

- As provided in Program Budget Decision 407 dated December 11, 1996, 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 capacity is considered a mobilization requirement that is to be funded by appropriated funds provided by the DoD Component having management responsibility for the Fund activity

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

G. 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. Instead, for development of customer rates, a civilian equivalent rate, provided by the USD (C), will be used to price military personnel at DWCF activities during budget formulation. 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 workyears 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 General Schedule of civilian pay rates, step 5 or Executive Service pay rates of the equivalent grade are used. (b) The amount in (a) should be multiplied by any proposed pay raise effective in future periods that may impact the level and cost for negotiated military support. (c) The amount calculated in (b) is to be multiplied by the civilian personnel fringe benefits factor applicable to the Military Service or Defense Business Operations Fund to arrive at the total civilian cost. The 14.7 percent for unfunded civilian retirement is not to be included in the calculation. (d) Civilian personnel fringe benefit rates and military composite rates are provided by the OUSD(Comptroller).

4. See Volume 2A, paragraph 010217 for military personnel pricing policy.

H. Full Recovery of Costs and the Setting of Prices

1. Managers of 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 the Depot Maintenance Activity Group*, 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.

2. Prices for the budget year will be set to recover costs 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 Net 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 losses be recovered over a two year period. The request must be included in the budget submission, may recover no more than 50% of the loss in the second fiscal year, and must demonstrate that the delay in the recovery of losses will not adversely effect 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 extended AOR loss recovery plans.*

4. *Unbudgeted Depot Maintenance operating losses and operating gains of \$10 million or more per activity group will be recouped or returned as appropriate, in the current fiscal year or, in the case of fourth quarter gains and losses, in the subsequent quarter of the next fiscal year. This rate adjustment will increase financial discipline, encourage depot commanders to implement cost controls more rapidly, and provide the right incentives to set rates correctly in the budget, eliminate the routine use of advance billing to cover execution losses, and improve operational efficiency.*

5. *The established procedures will impose a surcharge on customer bills to recoup losses. The amount of the losses to be recouped will be determined at the first budget execution review meeting of the fiscal year. Additional adjustments will be determined during the mid-year review as needed. Customers will be required to absorb or finance all cost increases*

6. 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.

7. Unbillable 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 operating losses accruing, therefore, will be included in calculating net operating results.

8. The prices set for all activity groups processes will match the rate changes approved during the budget review.

I. 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. 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:

- 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.

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

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

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

- 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.

J. 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.

K. 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 (Interservice and Intragovernmental 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, Public Works Center 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.

L. 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.

M. *DWCF* Management Headquarters Costs

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.

Costs for discrete *DWCF* management headquarters organizations and parts of organizations that perform direct *DWCF* management headquarters functions should be directly funded by *DWCF*, if feasible, or reimbursed by *DWCF*. 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 have direct *DWCF* management responsibilities) should also be allocated, if feasible.

N. Dual Funded Organizations

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.

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.

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.

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.)

O. Revenue Recognition

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. *Beginning in FY 2000, the "Percentage of Completion Method" will be 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.

It is important that current period net income/loss include revenues earned and costs incurred in the same periods in order for the activity group manager to better evaluate the performance of an organization for the period(s) in which the work is performed. The revenue recognition policy does not encompass or establish policies for billings to customers or payments from customers.

DoD Financial Management Regulation (DoD 7000-14R), Volume 11B, Chapter 61 provides specific revenue recognition guidance by *DWCF* activity group.

P. Customer Mandated Schedule

When a job order is canceled or reduced in scope after a *DWCF* activity has commenced work or incurred costs on the order, 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.

DoD 7000-14R, Chapter 1, paragraph 010222, provides specific guidance for the types of directly associated cancellation or reduction costs that can be charged to customers.

Q. Extraordinary Write-offs.

Extraordinary write-offs of losses, chargeable against AOR 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 either Form SM-5B or Fund-7B and will include an attached explanation which cites the fiscal year, the action which precipitated the divestiture action, the basis of the proposed write-off, and the dollar value. *All requests for extraordinary write-offs must be approved by the OUSD(C). Any out of cycle requests for extraordinary write-offs should be forwarded to the Directorate for Revolving Funds, Program and Budget for review and approval.*

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 fully cost burdened 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. *The only exception to this stabilized rate policy is for unplanned losses in the Depot Maintenance Activity Groups. See paragraph 010218B or 090103H for more specific guidance.* In Supply Management, customers are charged the stabilized price in effect when the item is dropped from inventory.

2. 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. DoD(C) will review and approve all final rates and prices developed for the President's budget submission during the Budget Review. Rates to be charged customers will be developed by the Components in their budget estimate submission 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. Following the determination of required costs and proposed rate structures necessary to recover the full 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. Budget Formulation Rates and Prices. Rates will be established in a multiple step process as described below:

1. Each Service or DoD Component managing a 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 conform to OSD and OMB guidance on the impact of inflation, projected pay changes, and other programmatic and policy changes will also 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 will be made by the OUSD(C) 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 the customer account program levels 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.*

090105 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.

090106 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 BUDGET FORMULATION**090201 Purpose**

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

090202 General

A. Copies. Number of copies of the required materials to be submitted with the annual budget estimates are identified in Chapter 1. Four (4) copies of relevant materials will be submitted with the execution review when a separate review is required. An execution review will be conducted when approved by DoD(C).

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 010505, the *DWCF* budget estimates will be entered into the Budget Review System (BRS). BRS entries are in obligations.

1. *DWCF* Operating Budgets will be entered into the BRS 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 BRS as obligations regardless of program year. Do not enter into the BRS 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 BRS. Program Budget Decisions will also, based on the proper correlation provided by the Components, contain compatible cost adjustment summaries to be used 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.

		OSD/OMB Budget	Backup to Pres Budget	President's Budget	Execution Review
SM-1	Supply Management Summary by Division	yes	yes	yes	yes
SM-2	General Narrative Justification by Division	yes	no	no	yes
SM-3a	Operating Budget	yes	no	no	no
SM-3b	Operating Requirement by Weapon System by Division	yes	yes	yes	no
SM-3c	Mobilization by Division	yes	no	no	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-8	Collections/Disbursements	no	yes	no	no
SM-10	Commodity Summary	yes	no	no	no
SM-16	Total Cost Per Out Summary	yes	no	no	no
Fund-1	Summary of Price, Program, & Other Changes	yes	yes	no	no
Fund-1a	Details of Price, Program, & Other Changes	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 Investment & Financing Summary	yes	yes	no	no
Fund-9d	Capital Budget Execution	yes	no	yes	no

		OSD/OMB Budget	Backup to Pres Budget	President's Budget	Execution Review
Fund-11	Source of Revenue	yes	no	yes	no
Fund-12	Performance & Quality Measures	yes	yes	no	no
Fund-13	Cash Management Plan	yes	yes	no	no
Fund-14	Revenue and Expenses	yes	no	yes	no
<i>Fund-14A</i>	<i>Revenue and Expenses for Supply Management Activity Group</i>	<i>yes</i>	<i>yes</i>	<i>no</i>	<i>no</i>
Fund-15	Fuel Data	yes	yes	yes	no
Fund-19	Military & Civilian Personnel by End Strength & FTEs	yes	no	no	no
Fund-20	Military Personnel End Strength	yes	no	no	no
Fund-21	Civilian Personnel Costs by Activity group	yes	yes	no	no
Fund-22	Summary of Base Support	yes	no	no	no
Fund-23	Statement of Financial Condition	yes	no	no	no
Fund-25	Headquarters Cost	yes	no	no	no
Fund-26	Revenue and Expense Phasing Plan	yes	yes	no	no
Fund-27	DFAS Customer Funding Summary	yes	no	no	no
Fund-28	Execution Performance Monthly Analysis	no	no	no	yes
Fund-29	Civilian Personnel Execution Performance Quarterly Analysis	no	no	no	yes
OP-32	Operation & Maintenance Budget Activity (Part of the O&M submission, Chapter 3)	yes	no	no	no
R-32	RDT&E Appropriation Budget Budget Activity (Part of the RDT&E submission, Chapter 5)	yes	no	no	no
P-32	Procurement Appropriation Budget Activity (Part of the Procurement submission, Chapter 4)	yes	no	no	no

C. Definition of Terms Used in Supply Management Activity groups

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.

Administrative Leadtime. That portion of the procurement leadtime that begins with the identification of the need to buy and the awarding of the contract.

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. Obligation authority for Mobilization purposes should be separately identified in annual funding documents. Obligations shall be separately accounted for and reported as mobilization and operating.

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.

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.

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

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.

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.

Cost of Goods Sold (COGS). COGS represents the latest acquisition price *or the latest repair price* 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.

Decapitalization. The transfer of Fund inventories to other appropriations or funds without reimbursement.

Demands. 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.

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

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.

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

Exchange Price. 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.

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.

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 (i.e., replenishment).

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.

Inventory (Supply). An aggregation of material (supplies, equipment or end items) which is 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.

- 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.

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

- 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.

Inventory Cost Categories

- 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.

- Mobilization Costs cover fiscal year New Budget Authority to procure items with funds appropriated 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.

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.

Latest Acquisition Cost (LAC). 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. Can be based on an earlier buy if the latest purchase is considered nonrepresentative. Does not include any surcharges or inflation factors.

Numeric Stockage Objective (NSO) Item. A nondemand-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; but as non-demand-based. Also included in this category are:

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

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

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.

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.).

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.

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.

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.

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

Provisioning Item (Outfitting). That portion of Provisioning consisting of items for which a sale is anticipated to an appropriated outfitting (buy-out) account.

Reclassification. The transfer of assets between inventory strata.

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.

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.

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.

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

Replenishment Spare and Repair Parts. Those spare and repair parts required to resupply or increase initial stockage of reparable or consumable parts in support of fielded items.

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.

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 latest acquisition 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.

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.

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.

Surcharge. Factors added to the latest acquisition cost or repair cost price of an item to arrive at the customer's standard or exchange price. Surcharges will include: (1) transportation, for such costs as 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; and (7) DLR carcass attrition costs, if applicable.

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.

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

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 resupply 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 which use direct labor hours in their rate computation. Exhibit Fund-8b is to be included only for the Transportation activity groups.

		OSD/OMB Budget	Backup to Pres Budget	President's Budget	Execution Review
SM-8	Collections/Disbursements	<i>no</i>	yes	no	no
Fund-1	Summary of Price, Program, and Other Changes	yes	yes	no	no
Fund-1a	Details of Price, Program, and Other Changes	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-4	Summary of General & Administrative Costs	yes	no	no	no
Fund-5	Total Cost Per Output Summary	yes	yes	no	no
Fund-7a	Summary of Source of Revenue	yes	<i>yes</i>	<i>no</i>	no
Fund-7b	Customer Rate Computations	yes	no	no	no
Fund-8a	Appropriation Request Summary	yes	no	no	no
Fund-8b	Air Mobility Command	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 Investment & Financing Summary	yes	yes	no	no
Fund-9d	Capital Budget Execution	yes	no	yes	no
Fund-10	Price Changes	yes	no	no	no
Fund-11	Source of Revenue	yes	no	yes	no
Fund-12	Performance & Quality Measures	yes	no	no	no
Fund-13	Cash Management Plan	yes	yes	no	no

		OSD/OMB Budget	Backup to Pres Budget	President's Budget	Execution Review
Fund-14	Revenue and Expenses	yes	no	yes	no
Fund-15	Fuel Data	yes	no	no	no
Fund-16	Material Inventory Data	yes	no	yes	no
Fund-17	Summary of Real Property Maintenance	yes	no	no	no
Fund-18	Fund Summary by Component	yes	no	no	no
Fund-19	Military & Civilian Personnel by End Strength and FTEs	yes	no	no	no
Fund-20	Military Personnel End Strength	yes	no	no	no
Fund-21	Civilian Personnel Costs by Activity Group	yes	yes	no	no
Fund-22	Summary of Base Support	yes	no	no	no
Fund-23	Statement of Financial Condition	yes	no	no	no
Fund-24	Summary of Personnel Data	yes	no	no	no
Fund-25	Headquarters Cost	yes	no	no	no
Fund-26	Revenue and Expense Phasing Plan	yes	yes	no	no
Fund-27	DFAS Customer Funding Summary	yes	no	no	no
Fund-28	Execution Performance Monthly Analysis	no	no	no	yes
Fund-29	Civilian Personnel Execution Performance Quarterly Analysis	no	no	no	yes
OP-32	Operation & Maintenance Budget Activity Chapter 3)	yes	no	no	no
R-32	RDT&E Appropriation Budget Budget Activity (Chapter 5)	yes	no	no	no
P-32	Procurement Appropriation Budget Activity (Chapter 4)	yes	no	no	no

B. Definitions Used in Non-Supply Activity groups

Maintenance Depot. Industrial facilities of the Defense Business Operations Fund including; Army and Marine Corps Multiple Commodity Maintenance Depots, Ordnance Depots, Arsenals, Navy and Air Force Aviation Depots, Shipyards, and DLA Industrial Plant Equipment Repair Sites.

Direct Labor Hour Rate. The fully burdened cost per direct labor hour used as the initial basis for establishing stabilized rates. The direct labor hour rate is computed by dividing the sum of all labor, nonlabor, 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.

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 manhours 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.

Fixed Price Catalogs. Depot Maintenance activity groups may maintain a catalog of products and services (major end items, components, depot level repairables, 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.

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.

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 OSD/OMB 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 DoD(C)-directed price adjustments, as specified in the DoD(C) 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).

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, its 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 DoD(C) 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.

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, and significant changes in the nature of the business over the period encompassed by the President's budget submission; an analysis of the budget statements covering revenue and expenses, costs of operation, and the statement of financial condition. 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.

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. The OUSD(Comptroller) will prepare the executive overview. Each Component will prepare a separate volume including their operating and capital budgets for direct submission to the Congress following review and approval by the OUSD(Comptroller). The Defense-wide volume material will be prepared by each Defense Agency and submitted to DoD(C), 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 OSD/OMB 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, customer prices, and unit costs. Any deviation from the approved level must be completely justified and coordinated with the appropriate Revolving Fund Directorate activity group 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.
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, and significant changes in the nature of the business over the period encompassed by the President's budget submission; an analysis of the budget statements covering revenue and expenses, costs of operation, analysis of government equity, and the statement of financial condition. 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. 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.

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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 and SM-1a 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.
4. Peacetime Inventory will reflect the numbers shown on SM-2, line 6C.
5. Net Customer Orders will reflect the numbers shown on SM-2, line 2B.
6. Net Sales will reflect the numbers shown on SM-2, line 1.
7. Obligation Targets will reflect the targets shown on SM-2, lines 3A, 3B, 3C, 3D, and 3E. An obligation target total (*excludes capital obligations*) will be shown and be equal to line 3F of the SM-2. Only obligations will be shown on this form. Any other cost data, such as depreciation, will not be shown on this form.
8. Other Obligation Target includes appropriated dollars for any purpose other than mobilization.
9. Commitment Targets will reflect the numbers shown on SM-2, line 4.
10. Target Total will reflect the numbers shown on SM-2, line 5.

FY _____ Budget (DoD Component) SUPPLY MANAGEMENT Justification by Division	DIVISION				DATE	
	FY__	FY__	FY__	FY__	FY__	FY__
1. NET SALES						
2. CUSTOMER ORDERS						
a. GROSS CUSTOMER ORDERS						
b. NET CUSTOMER ORDERS						
3. OBLIGATION TARGETS						
a. OPERATING (except repair of DLRs)						
b. REPAIR OF DLRs						
c. PROVISIONING						
d. MOBILIZATION						
e. OTHER						
f. TOTAL						
4. COMMITMENT TARGET						
5. TOTAL AUTHORITY						
6. PEACETIME INVENTORY						
a. OPERATING INVENTORY EOP						
b. OTHER INVENTORY EOP						
c. SUBTOTAL PEACETIME INVENTORY						
7. MOBILIZATION INVENTORY EOP						
8. TOTAL INVENTORY EOP						
9. GENERAL DESCRIPTION						
10. NUMBER OF ITEMS MANAGED						
11. MEASURE OF EFFECTIVENESS						
12. OPERATING TEMPO (Flying hours by aircraft type, steaming days, etc.)						
13. NARRATIVE EXPLANATION						

Exhibit SM-2 Justification by Division

INSTRUCTIONS FOR PREPARATION OF
GENERAL NARRATIVE JUSTIFICATION (EXHIBIT SM-2)

The purpose of the General Narrative Justification, SM-2 is to provide the basic justification for the budget request. Instructions for preparation of SM-2, General Narrative Justification follows:

1. Prepare an SM-2 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 for the President's budget and the apportionment and midyear review. No summary SM-2 is required. An SM-2 is not required for a supply operations division.
2. Dollars in millions and tenths of a million except the Air Force Academy Division exhibits will be prepared in thousands.
3. For Net Sales use reimbursable issues minus stock fund credits and allowances (line 1). Amount entered will agree with the amount entered on SM-1.
4. For Gross Customer Orders (Demands) use gross sales (reimbursable issues) plus or minus the change (from the prior year) in unfilled orders (line 2A). An unfilled order is an unsatisfied requisition which upon issue of the material will become a sale. For Net Customers Orders (line 2B) subtract credits and allowances.
5. Obligation Targets will be divided into Operating less Repair of DLRs (line 3A), Repair of DLRs (line 3B), Provisioning (line 3C), Mobilization (War Reserves) (line 3D), and Other (line 3E). Other obligations include appropriated dollars for any purpose other than mobilization. These categories may be subdivided if approved by OSD. The total requested by division will reflect the total obligations shown on the Program and Financing Statement for the OSD/OMB Review and the President's budget for *Operating Budget*. See definitions of terms Section 090203, Supply Management Activity groups, for description of categories.
6. Commitment Targets will provide an administrative reservation of authority which when approved authorizes the supply management activity group to incur additional obligations on a dollar-for-dollar basis if customer orders (demands) increase without the requirement for a revised apportionment and reapportionment request. Commitment targets will also provide for normal unobligated end-of-year commitments (line 4).
7. Total Authority (line 5) is the total of obligations (line 3F) and commitment target (line 4).
8. Operating Inventory EOP (End Of Period) is the total applicable peacetime on hand and in transit inventory at standard price (include any provisioning inventory on hand or in transit) (line 6C). Peacetime inventory EOP (End Of Period) is the total Operating Inventory (line 6A) and Other Inventory (line 6B). Mobilization Inventory is shown on line 7. Total Inventory is line 6C plus line 7.
9. General Description (item 9) is a short narrative describing what the supply management division covers and supports.
10. Number of Items Managed (item 10) should provide quantitative data and narrative explanation of major changes.

11. Measures of Effectiveness (item 11) should provide quantitative data and narrative explanation of major changes in measures of supply effectiveness. The following measures of effectiveness will be used:

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.

Requisition delay time--The length of time between the date 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.

Mission capable rate supply--The number of weapon systems either fully or partially mission capable because of a stock funded item expressed as a percent of the total number of weapon systems. This measure should be shown for each major weapon system.

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.

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.

12. Operating Tempo Assumptions (item 12) 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.

13. Narrative Explanation (item 13) should cover an explanation of major changes between fiscal years as well as in the relationship between sales, orders (demands), and obligations.

FY ____ (DoD Component) BUDGET SUPPLY MANAGEMENT Operating Budget	DIVISION			DATE	
	(Dollars in Millions)				
	FY ____	FY ____	FY ____	FY ____	FY ____
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					

Exhibit SM-3a Operating Budget

FY ____ (DoD Component) BUDGET		DIVISION			DATE	
SUPPLY MANAGEMENT Operating Budget (Continued)		(Dollars in Millions)				
		FY ____	FY ____	FY ____	FY ____	FY ____
E. COMMITMENT 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						
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 to replace sales, and others (listed and explained as necessary) at standard price.
5. Mobilization Requirement (line A2) should be the funded requirement 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 noninventory 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, and will agree with SM-2 (line 3F) total obligation target.
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 will be based on subsequent fiscal year estimated demands, and will be constructed by element (e.g., safety levels, production leadtime, 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 which 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 provided that prior approval for substitution is obtained from the Director for Revolving Funds, USD(C).

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. Leadtime. (Days/Dollars) The requirement to support demands (requiring replacement through acquisition) over the acquisition leadtime period of procurement or order and ship time, depending on the echelon of supply, is included in this entry. No leadtime requirement is to be included for issues replaced through the repair cycle or for issues which will not be replaced. Therefore, these types of issues are subtracted from gross demands in the computation. The narrative should describe significant changes in leadtime 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 arrival 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 leadtime). 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 which 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. 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 which 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 which 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, BY2).

2. Definitions.

a. Basic Replenishment consist of the sales replacement spares.

b. Outfits are initial outfittings 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 which 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. Appropriate levels of aggregation will be approved by the Director for Revolving Funds. Common parts may be grouped by category such as radios or may be allocated to specific systems such as F-16 aircraft. Obligational authority requests for nonweapon system-related requirements such as reverse engineering and forgings & castings 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 latest acquisition cost or repair cost as appropriate.

FY_____ BUDGET <hr/> (DoD Component) Date:	MOBILIZATION REQUIREMENT BY DIVISION (Dollars in Millions)					
	CY	BY1	BY2	BY3	BY4	BY5
1. REQUIRED						
a. PREPOSITIONED						
b. SUSTAINING						
c. TOTAL						
2. ASSETS						
a. PREPOSITIONED						
b. SUSTAINING						
c. TOTAL						
3. FUNDED DEFICIT						
a. PREPOSITIONED						
b. SUSTAINING						
c. TOTAL						
4. UNFUNDED DEFICIT						
a. PREPOSITIONED						
b. SUSTAINING						
c. TOTAL						
5. NARRATIVE						

Exhibit SM-3c By Division

INSTRUCTIONS FOR PREPARATION OF
MOBILIZATION REQUIREMENT (EXHIBIT SM-3C)

The purpose of the SM-3C, Mobilization Requirement is to provide a breakout of the funded and unfunded mobilization requirement.

1. Prepare SM-3C for each supply management division which has a mobilization requirement.
2. Dollars in millions and tenths of a million.
3. Provide for current year through FYDP. Only totals for each category (1 through 4) need be shown for FYDP years.
4. Show all data at cost.
5. See Section 090203, Supply Management, for definition of prepositioned. All other war reserve requirements will be included under sustaining.
6. The unfunded deficit is that portion of the total requirement for which no funds are available. The total requirement will encompass the minimum number of days specified in the Defense Guidance. Explain in narrative any constraints not due to funding.

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)					

Exhibit SM-4 Inventory Status

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, Repriced 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 decapitalized during the period of the report. Show a net decapitalization 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. Use standard price.
 - 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.
 - 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 latest acquisition cost. 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. DLSC/DAASC/DRMS Obs								
<i>1. Defense Logistics Systems Cntr</i>								
<i>2. Defense Automtd Address Sys Ctr</i>								
<i>3. Defense Reutilization & Marketing</i>								
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 OUSD(C) by August 1. OUSD(C) 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 cost for that wholesale division. If the division is consumable, the sales at cost should be at latest acquisition cost (LAC). 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. (Note: Since Air Force pricing computation modules can compute only forecast acquisition price, the Air Force must manually compute the difference between latest acquisition cost and forecast acquisition price and provide that computation for review with the rest of the exhibits required. That calculation of latest acquisition cost will be used as sales at cost in the Air Force budget exhibits). 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 DLSC, DAASO, and DRMS approved in the President's budget for the PY and the CY. For the BY1/BY2 enter anticipated obligations to reimburse DLSC, DAASO, and DRMS. *List the amounts applicable to each of these organization 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.

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 leadtime preceding the CY setting of prices; (2) approved inflation over the production leadtime 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

FY _____ (Activity group) _____ (DoD Component)	COLLECTIONS/DISBURSEMENTS WORKSHEET (Dollars in Millions)			
	OPERATING	OTHER	MOBILIZATION	TOTAL
1.				
a. BALANCE, BOP FY				
b. APPROPRIATIONS				
c. TRANSFERS				
d. COLLECTIONS				
e. DISBURSEMENTS				
f. NET OUTLAYS				
g. CASH, EOP				
2.				
a. BALANCE, BOP FY				
b. APPROPRIATIONS				
c. TRANSFERS				
d. COLLECTIONS				
e. DISBURSEMENTS				
f. NET OUTLAYS				
g. CASH, EOP				
3.				
a. BALANCE, BOP FY				
b. APPROPRIATIONS				
c. TRANSFERS				
d. COLLECTIONS				
e. DISBURSEMENTS				
f. NET OUTLAYS				
g. CASH, EOP				
4.				
a. BALANCE, BOP FY				
b. APPROPRIATIONS				
c. TRANSFERS				
d. COLLECTIONS				
e. DISBURSEMENTS				
f. NET OUTLAYS				
g. CASH, EOP				

Exhibit SM-8 Collections/Disbursements

INSTRUCTIONS FOR PREPARATION OF
COLLECTIONS/DISBURSEMENTS (EXHIBIT SM-8)

The purpose of the Collections/Disbursements Exhibit, SM-8, is to provide detailed backup for cash impacts. Instructions are:

1. The exhibit is required to be submitted with each budget submission or review. It may be determined based upon computation from amounts recorded in general ledgers, from memorandum records, or projections of recent experiences. Amounts shall be rounded to the nearest tenth of a million dollars. Prepare SM-8 for prior fiscal year and each succeeding fiscal year through the FYDP.

a. Prior Fiscal Year:

(1) Balance, BOP. Report the balance at the beginning of the period.

(2) Appropriations. Report the amount of appropriations realized in the prior fiscal year.

(3) Transfers. Report the amount of transfers from or to other funds during the prior fiscal year.

(4) Collections. Report the amount of collections received.

(5) Disbursements. Report the amount of disbursements made.

(6) Net Outlays. Report the amount of net outlays for columns 1 and 4 by subtracting the estimated collections line 1.d from expenditures line 1.e.

(7) Cash Balance, EOP. (End of Period). Report the fund balance as of the end of the reporting period.

b. Current Fiscal Year. Provide the same data as for the prior fiscal year, allowing balance EOP + BOP to compute based on transactions.

c. Budget Year. Provide the same data as for the current fiscal year.

d. Outyears. Provide the same data for the year following the budget year for the OSD/OMB Budget Review only.

2. Other Fund Balance (column 2) includes appropriated dollars for any purpose other than mobilization.

FY _____ BUDGET COMMODITY SUMMARY				A. Supply Management		B. AS OF (Enter date)	
	SPARE PARTS	SUBSISTENCE	CLOTHING	MEDICAL/ DENTAL	FUEL	OTHER	TOTAL
<u>CONTRACT AUTHORITY - SOURCE:</u>							
OPERATING PURCHASES FROM DIA							
OPERATING PURCHASES FROM OTHER STOCK FUND							
OPERATING PURCHASES FROM OWN STOCK FUND							
OPERATING PURCHASES FROM SUPPLIERS							
OPERATING COSTS							
TOTAL OBLIGATIONS							
<u>NEW APPROPRIATION (MEMO)</u>							
MOBILIZATION							
OTHER							
SALES - BY CUSTOMER							
TO NON-DOD AND FMS							
TO OWN STOCK FUND							
TO ARMY							
TO NAVY							
TO AIR FORCE							
TO MARINE CORPS							
TO OTHER DOD							
<i>To Other Non-DoD (list)</i>							
TOTAL SALES							

Exhibit SM-10 Commodity Summary

INSTRUCTIONS FOR PREPARATION OF EXHIBIT SM-10
COMMODITY SUMMARY

The purpose of the SM-10, Commodity Breakout Chart, is to provide a breakout of Appropriation, *Costs and Sales* including sales for each Service and the Defense Logistics Agency. This exhibit will be prepared in million of dollars and cover the prior, current, and budget year.

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.

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

Component: _____

Activity group: _____

Date: _____

(\$ in Millions)

	Cost of Opns <u>FY PY</u>	Cost of Opns <u>FY CY</u>	Price Growth	Program & Other Changes	Cost of Opns <u>FY BY1</u>	Price Growth	Program & Other Changes	Cost of Opns <u>FY BY2</u>
Military Personnel Compensation (Fund-1a lines 010-050)								
Civilian Personnel Compensation and Benefits (including FNIH personnel) (Fund- 1a lines 101-113)								
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.

Exhibit Fund-1 Summary of Price and Program Changes - Costs

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

This exhibit reflects the total operating costs (including reimbursements for non-Fund activity groups) to accomplish the work load represented by all measured and unmeasured outputs. Measured outputs are those for which total costs for the output are estimated on the basis of the average total cost per unit. Unmeasured outputs are those remaining outputs which are expressed only in terms of total program costs. The operating budget will show depreciation for all capital benefiting the activity group. Both the Summary Exhibit (Fund-1) and the Detail Exhibit (Fund-1a), which reflect the costs 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.

**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 – <i>Civilian Equivalent</i> Rates				
050					
	Enlisted Composite – <i>Civilian Equivalent</i> 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 (<i>15%</i> of Employee’s final basic pay)				
113					
	Retirement Fund Offset (\$80 per year per employee) (<i>Not required after FY 1998</i>)				
	Total Civilian Personnel Compensation				
<u>TRAVEL</u>					
308					
	<i>Travel of Persons</i>				
	Total Travel				
<u>MATERIAL & SUPPLIES (FOR INTERNAL OPERATIONS)</u>					
401					
	<i>DFSC (Fuel)</i>				
402					
	Service Fuel (Purchases <i>From Other than DFSC</i>)				
411					
	<i>Army Managed Supplies and Materials</i>				
412					
	<i>Navy Managed Supplies and Materials</i>				
413					
	Non-capitalized Equipment Procured from DoD Sources				
414					
	<i>Air Force Managed Supplies and Materials</i>				
415					
	<i>DLA Managed Supplies and Materials</i>				
416					
	<i>GSA Managed Supplies and Materials</i>				
421					
	Locally Purchased Supplies & Materials (Other than from Supply Management)				
422					
	Locally Purchased Non-capitalized Equipment				
	Total Material, Equipment & Supplies				

Note: For Supply Management Activity groups, all entries on this form are obligation except for the costs of depreciation.

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>EQUIPMENT PURCHASES</u>					
502					
503					
505					
506					
507					
550					
<u>OTHER INTRAFUND (FUND) PURCHASES</u>					
601-699				<u>Component</u>	
601				Army	
602				Army	
603				Defense	
610				Navy	
611				Navy	
612				Navy	
613				Navy	
614				Navy	
615				Navy	
<u>Transportation (Sealift Services):</u>					
620				Navy	
621				Navy	
623				Navy	
624				Navy	
653				Air Force	
630				Navy	
631				Navy	
632				Navy	

**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>Navy Base Support Services:</u>					
			<u>Component</u>		
634	Public Works - Utilities		Navy		
635	Public Works - Other		Navy		
639	Public Works (Composite Rate)		Navy		
637	Naval Shipyards		Navy		
640	Marine Corps Depot Maintenance		Marine Corps		
647	DISA Information Systems (Megacenters)		Defense		
648	Army Information Services		Army		
649	Air Force Information Services		Air Force		
650	DLA Information Services		Defense		
651	DFAS Information Services		Defense		
<u>Depot Maintenance:</u>					
661	Organic Operations		Air Force		
662	Contract		Air Force		
633	Defense Printing Services (FY 1997 and out)		Defense		
670	Defense Automatic Addressing Systems		Defense		
671	Communications Services (DISA)		Defense		
672	Purchases From Pentagon Reservation Maintenance Revolving Fund		Defense		
673	Financial Operations (DFAS)		Defense		
674	Distribution Depots (DLA)		Defense		
675	Defense Reutilization and Marketing Services (DRMS)		Defense		
676	<i>Defense Commissary Operations</i>		Defense		
678	<i>Defense Security Service</i>		<i>Defense</i>		
680	Purchases from the Buildings Maintenance Fund		Defense		
679	Cost Reimbursable Purchases		All		
680-689	Other Activity groups (List)		All		
	Total Other Fund Purchases				

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 years PY, CY, BY1, and BY2. All activity groups will report the amortized capital costs of the activity for the capital investments benefiting the activity group. All entries on this form are costs except for Supply Management activity groups. For Supply Management activity groups, all entries on this form 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.

109 - 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) during fiscal year 1995. *This line item was 9% prior to FY 1998.*

110 - \$80 per year for each employee on an agency's rolls under CSRS and the Federal Employees Retirement System as of March 31 of fiscal years 1995 - 1998, of whether an agency offers buyouts. *Discontinued after FY 1998.*

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 \$100,000 per item. Equipment costing more than \$100,000 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).

- 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.

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.

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

Exhibit Fund-2 Changes in the Costs of Operation

Page 1 of 2

Changes in the Costs of Operation (Cont)

Component/Activity group:_____

Date:_____

(Dollars in Millions)

Expenses

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 (Defense Management Reviews (DMR) and other) 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.

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 with individual DMR's from other productivity initiatives.

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

(\$ in Millions)

	<u>Direct</u>	<u>Indirect</u>	<u>Gen & Adm</u>		<u>Workload</u>	<u>Unit</u>
<u>FY PY</u>	<u>Labor 1/ Nonlabor</u>	<u>Labor 1/ Nonlabor</u>	<u>Labor 1/ Nonlabor</u>	<u>Total</u>	<u>Indicator</u>	<u>Cost</u>

1/ Includes military and civilian compensation

FY CY

List total Direct, Indirect, and General and Administrative expenses by year. The distinction between these elements of cost should be based on the 15 October 1990 Unit Cost Resourcing Guidance, or approved Unit Cost Task Group Mapping.

FY BY1

For Supply Management Activity groups, all entries on this form are in obligations with the exception of depreciation.

Workload may be expressed in Direct Labor Hours or other meaningful measure for the activity group.

Unit Cost will equal total cost divided by total workload measure for each fiscal year.

FY BY2

Area Personnel Breakdown

	<u>Direct</u>	<u>Indirect</u>	<u>Gen & Adm</u>	<u>Total</u>
<u>FY PY</u>				
Civilian FTEs				
Civilian End Strength				
Military End Strength				
<u>FY CY</u>				
Civilian FTEs				
Civilian End Strength				
Military End Strength				
<u>FY BY1</u>				
Civilian FTEs				
Civilian End Strength				
Military End Strength				
<u>FY BY2</u>				
Civilian FTEs				
Civilian End Strength				
Military End Strength				

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

This exhibit *combines the requirements of Fund-6 exhibit (Derivation of Unit Costs)*. Accordingly, the Fund 6 exhibit will no longer be required. 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, which respond differently to changes in work load. *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, but not the personnel assigned to a G&A activity that provides base operations support to the activity group unless they are carried in the end strength of the business activity.

Summary of General and Administrative Costs

Component: _____

Activity group: _____

Date: _____

(\$ in Millions)

FY PY

FY CY

FY BY1

FY BY2

List those elements of cost, including purchased services and base operations, which will be distributed as General and Administrative Overhead Costs to measured and unmeasured outputs. Where appropriate, also include headquarters costs. Separately identify categories that are significant cost drivers; summarize less significant cost drivers in the "other" category. Examples of General and Administrative Costs include *but are not limited to*:

ADP Support
Telecommunications
Installation Services
Travel/Training
Equipment Maintenance
Civilian Personnel Office
Comptroller/Accounting and Finance
Real Property Maintenance
Utilities
Headquarters Support
Internal Supply or Inventory Management
Other

Total

Note: Significant differences between years should be explained.

* Includes higher headquarters operating expenses above the activity level command elements -- usually at the major command, systems command or other comparable organizational levels (see definition on Fund 25 exhibit).

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-5a should be used for activity groups with multiple outputs, which includes most of the activity groups that were formerly Industrial Fund activities.

Exhibit Fund-5 Total Cost Per Output Summary

Total Cost Per Output Summary
Component: _____
Activity group: _____
Date: _____

1. Description of How Products are Priced:

Examples: Price list for items repaired
 Cost per billable hour
 Cost per item manufactured
 Cost per ton/mile by route

Activity groups should provide descriptions for as many of the primary outputs as practical.

2. Explanation of Average Change in Cost:

FY CY Average Changes in Cost

Provide a narrative explanation of how the data displayed in Exhibit Fund-1 and changes in work load affect the average cost of products in FY CY, FY BY1, and FY BY2.

FY BY1 Average Changes in Cost

FY BY2 Average Changes in Cost

Exhibit Fund-5a Total Cost Per Output Summary

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, R-32, and P-32 exhibits 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, R-32, and P-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 subcomposite rates (that make up the DoD stabilized rate) such as a rate by major commodity or product (engines, airframes, components, etc.), these subcomposite rates may be used in the "Prior Year Stabilized Rate" column if grouped by customer or appropriation.

The column "New Orders Accepted but not Worked" will reflect carry-out orders.

Funded carry-in showing excess of three months in FY PY - FY BY2+1 should be explained in a narrative footnote to this exhibit.

CUSTOMER RATE COMPUTATIONS

Department of (Component Name)

Activity group: _____

<u>Adjustment</u>	<u>New Order FY _</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 nonstabilized rate revenue and revenue from carry-in orders at prior year composite rate: (including BRAC funding, direct reimbursables, UPC funds, pass-throughs, 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. Initial Cost Per Direct Labor Hour for New Orders: (line 6 divided by line 5).				\$xx.xx
8. DLHs associated with new orders to be carried-over* for execution in the next fiscal year:			xxx,xxx	
9. Add inflation differential value for New Orders accepted but programmed for carry-over to next fiscal year. (Line 7 times Line 8 times inflation rate).			+\$xxx,xxx	
10. Adjusted Cost of Goods Sold (Line 6 plus line 9):			\$xxx,xxx,xxx	

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>
11. Adjusted Cost Per Direct Labor Hour: (Line 10 divided by the sum of the DLHs from Step 5 and step 8).			\$xx.xx
12. Adjustment for prior year gains or losses necessary to achieve an end-of-year AOR of zero for the budget year: Step 12 is calculated as follows: (a) Take the previous year end-of-year AOR and add to that any gains or losses in the budget year(s) and new surcharges required. (b) The resulting dollar value (from "a" above) is then multiplied by the following ratio: (Line 5 DLHs + Line 8 DLHs) / Line 5 DLHs The resulting dollar value, either positive (if your AOR is negative) or negative (if your AOR is positive), is then used as an adjustment to program cost in Item 12. The adjustment for capital surcharges is positive. This will ensure that all prior year gains or losses planned to be recouped or distributed will be accomplished during the budget year for which rates are being set. <i>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.</i>		+/- \$xxx,xxx,xxx	
13. Adjusted Cost of Goods Sold (the sum of Line 10 and line 12):d		\$xxx,xxx,xxx	
14. New Customer Order Stabilized Rate (Cost Per Direct Labor Hour): This rate is calculated by dividing line 13 by the sum of the DLHs from line 5 and line 8.			\$xx.xx
15. Percentage rate change from prior year: (line 14 rate divided by Line 1 rate) minus 1.			+/- xx.xx%

*Note - When determining inflation adjustments for carry-over orders you may include those orders from multiple year projects that were carried-in from the prior year, but will not be accomplished in the current year. The total carry-over DLHs should match the number reported on the Fund-7a exhibit.

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 that the total for all rates ties back to the activity group composite rate.*

**AIR MOBILITY COMMAND (AMC)
COMMON USER TRANSPORTATION SERVICES
DEFENSE BUSINESS OPERATIONS FUND SUMMARY**

DATE: _____

FY PY FY CY FY BY1 FY BY2

I. Cost of Operations

Outputs:

Cost per Trained Flight Crew (1)

- C-5
- C-130 (CONUS)
- C-141
- 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

II. Revenue

Channel Passenger Movement
Channel Cargo
Special Assignment Airlift Missions (SAAMs)
Joint Chiefs of Staff Exercises
Commercial Mail
Base Support (Reimbursements from Tenants)
Other

Total 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 cost of flying AMC planes versus the revenue which is generated by commercially based rates.

Exhibit Fund-8b Air Mobility Command Common User Services

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.

Activity group Capital Investment Summary

Component: _____

Activity group: _____

Date: _____

(\$ in Millions)

<u>Line Number</u>	<u>Item Description</u>	FY PY		FY CY		FY BY1		FY BY2	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
	Equipment - Replacement - Productivity - New Mission - Environmental * \$1,000,000 and over – list separately * \$500,000 to \$999,999.99 – one line * \$100,000 to \$499,999.99 – one line ADPE & Telecommunications Equipment Software Development <i>Internally Developed</i> <i>Externally Developed</i> Minor Construction TOTAL								

* This break-out applies to all CIP categories. Fund 9b Justification Requirements are found in Paragraph I of Instructions.

Exhibit Fund 9a Activity group Capital Investment Summary (Page 1 of 4)

Instructions for the Fund-9a Exhibit
Capital Investment Summary

I. **General** - Each line item shown on the Fund-9a Exhibit represents the summary data associated with an individual capital investment reported on the Fund-9b Exhibit (Capital Investment Justification). The line number assigned to the item from the Fund-9b Exhibit will be cross-referenced in the first column of the Fund-9a Exhibit. 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 Fund* name for the activity group. All individual projects with a cost of \$1,000,000 or more will be separately justified on Fund-9b Exhibit. *All projects with a cost of \$500,000 to \$999,999.99 may be included together on one line. However, each project making up the total of this line item will be listed separately on the Fund 9b exhibit showing project name, location where the project will be used and the dollar amount by fiscal year. All project with a cost between \$100,000 and \$499,999.99 may be included on one line. Listing of individual projects in this category is not required. However, sufficient back-up data should be maintained to identify these projects, if requested. Provide the number of projects included in the total for each fiscal year.* 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 010219C and 090103B.* Definitions for these capital budget categories are provided below:

A. **Equipment, other than ADPE and Telecommunications Resources**, costing \$100,000 or more will be capitalized and depreciated. Equipment will be categorized by the primary reason justifying the purchase: Replacement, Productivity, New Mission, or Environmental Compliance.

(1) Replacement Equipment should be systematically analyzed and alternatives considered to meet 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 \$100,000 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 life cycle cost of \$100,000 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 or subsystem 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 four phases: (1) planning and system design; (2) system development including software modification and conversion; (3) deployment, including environmental and operational test and installation; and (4) management and technical support.

(3) Costs to be included in a software development project include the total labor and nonlabor costs such as: (1) all direct cost 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). 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 \$500,000 will be capitalized and depreciated. *Minor Construction projects costing up to \$1,000,000 may be financed by the DWCF 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 category - Equipment \$1.0 million or more, Minor Construction, etc., and the proper nomenclature, or descriptive title, of the item to be procured or service to be purchased.

(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. The quantity shown in this exhibit should reflect all program changes through the date of preparation of the exhibit regardless of whether such changes have been previously reported.

(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).

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

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.

Exhibit Fund-9b Activity group Capital Purchase Justification

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

I. General

A. The purpose of this exhibit is to provide detailed cost data and narrative justification in support of each line item in Fund-9a. Separately justify each capital investment which costs \$1,000,000 or more. It is important that the Fund-9b be complete and accurate as it is the primary justification for business capital purchases.

B. Separate Fund-9b exhibits will be submitted for each line item on the Fund-9a where there is an entry in either the current year or budget year(s) columns. *Line items over \$1,000,000 are justified separately. For line items for projects costing between \$500,000 and \$999,999.99, list each project making up line item total separately. Show project name, location where it will be installed, fiscal year and amount of project. For projects costing between \$100,000 and \$499,999.99, indicate the number of projects making up the total for each fiscal year.*

II. Headings

A. For “Budget Estimate Submission,” 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 Business Operating Fund name for the activity group. Identify the activity that will benefit from the capital item, if possible. Specific activities need not be identified for Equipment, ADPE, and telecommunications resources, Software Development, and Minor Construction Purchases costing under \$500,000 each.

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

D. Line Item No. & 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. Purchases of equipment and systems often require more than one procurement action to complete the program or, if only one contract is involved, there may be several cost elements such as the end item itself, publications, installation, minor construction support, etc. Each of these elements should be shown separately in the “Elements of Cost” section with related costs shown separately under the total cost sections. Quantity and unit cost should be shown for these elements when appropriate.

B. Quantity. The quantity related to any cost element should be stated in units. Cost columns will be totaled.

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 each building block entry taking into consideration quantity to be procured/estimated to be procured and unit costs.

IV. Narrative Justification

A. Provide complete narrative description for each applicable item. The description should include, but not be limited to, the nature, purpose, and intended use of the item. This narrative justification should include sufficient information to serve as the sole justification for funding the item. The narrative must indicate whether a pre-investment economic analysis was performed. The narrative must also indicate the dollar value of associated 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. The narrative must also provide a clear, concise statement relating planned procurement to the total objective for the applicable item/program. For example, the total objective for a type of supply management equipment might be 40 units at an estimated cost of \$300,000 each for a total cost of \$12.0 million. Ten units have been procured in prior years, 15 units are included in the budget year, leaving 15 units to be procured in subsequent years. If the items are to be used/installed at more than one Activity, a list of the applicable Activities that are to receive the equipment/system should be provided.

Capital Investment and Financing Summary

Component: _____

Activity group: _____

(Dollars in Thousands)

Category: _____

	PY-X	PY	Fiscal Year		BY2	Outyears	Total Program
			CY	BY1			
Program Year Authority	100	125	140	150	160		
Program Year Obs (\$/%)							
PY-X	80/80%	20/20%					100/100%
PY		100/80%	25/20%				125/100%
CY			100/79%	20/14%	10/7%		140/100%
BY1				115/77%	35/23%		150/100%
BY2					120/75%	40/25%	160/100%
Total by FY	80	120	135	135	165	40	
Program Year Outlays (\$/%)							
PY-X	40/40%	40/40%	20/20%				100/100%
PY		50/40%	50/40%	25/20%			125/100%
CY			55/39%	45/32%	30/21%	10/8%	140/100%
BY1				60/40%	60/40%	30/20%	150/100%
BY2					65/41%	95/59%	160/100%
Total by FY	40	90	125	130	155	135	
Program Yr. Unoblig Balance							
PY-X	20						N/A
PY		25					N/A
CY			30	10			N/A
BY1				35			N/A
BY2					40		N/A
Total by FY	20	25	30	45	40		N/A
Program Year Unexpend Obs							
PY-X	40	20					
PY		50	25				
CY			55	30	10		
BY1				55	30		
BY2					55		
Total by FY	40	70	80	85	95		

A separate page will be submitted for each category of Capital Purchases as well as a summary page. The categories are Equipment-Non-ADPE, Equipment-ADPE and Telecommunications, Minor Construction, and Software Development. (PY-X should go back to, and include, FY 1992. Although the sample exhibit reflects program year obligations of 100% of CY, PY, and PY-X program authority, that need not be the case; CY, PY, and PY-X program year obligations should reflect your best estimates.

The percentages used above are for display purposes only. The actual amounts used will vary by activity group.

Exhibit Fund-9c Capital Investment and Financing Summary

Department of (Component Name)
Activity group: _____
FY 19__
FY 19 __ _____ **Budget Estimate**

PROJECTS ON THE FY __ PRESIDENT’S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</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.
- Reprogs 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-9d Capital Budget Execution

Price Changes
Component: _____
Activity group: _____
Date: _____

<u>Output</u>	<u>FY CY</u>	Rate/Price Change (%)	
		<u>FY BY1</u>	<u>FY BY2</u>
Output 1	Break each rate change into its detailed components (i.e., general inflation, productivity, etc.) on a percentage basis. Rate changes should be consistent with Fund-2.		
Output 2			
Etc.			

Explanation

This exhibit should list each output and the computed change in customer price from the previous year. The components of price contributing to changes in customer prices should be explained. All Fund customer rates for FY CY will be those reflected in the President's budget. FY BY1 and FY BY2 price changes should be based on cost reflected in this submission to achieve an accumulated operating result (AOR) of zero in both FY BY1 and FY BY2.

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				
4. Funded Carry-over				
5. Total Gross Sales				

Instructions for the Preparation of Exhibit Fund-11
Source of Revenue

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 Business Operations Fund Activity groups. Be specific as to the activity group.

Total New Orders on Line 1 must match data provided in the OP-32, R-32, and P-32 exhibits.

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 should equal orders from line 3 that will not be sold in the current year. For the Supply Management activity groups, funded carry-over represents backorders.

Line 5 will equal total gross sales shown on the Revenue and Expense Statement.

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.

Performance and Quality Measures
Component _____
Activity group _____

Output Measure _____

Performance Effectiveness Measure Definitions

<u>Category</u>	<u>Title</u>	<u>Description</u>
1. Net Operating Results (NOR)		
2. Timeliness		Provide a brief description of the performance measure and identify the source of the data. Include how the measure will be used to influence work process improvement, customer feedback, and management control.
3. Quality		
4. Customer Satisfaction		

Performance Measures

<u>Performance Measure</u>	<u>Goal</u>	<u>FY PY Actual</u>	<u>FY CY Estimate</u>	<u>FY BY1 Estimate</u>	<u>FY BY2 Estimate</u>
----------------------------	-------------	---------------------	-----------------------	------------------------	------------------------

Criteria: These measures should identify the critical characteristics of the product or service from the customer's perspective for activity groups. Each activity group should use the performance effectiveness measures submitted in the March 1, 1993, Milestone II Report to Congress and those measures mandated for use in financial statements by the Chief Financial Officers Act. Each performance effectiveness measure should: (1) describe the final product as it is received by the customer, (2) be a discrete straightforward indicator, (3) be critical to the outcome goals, (4) be controllable by the business activity manager, (5) be distinguishable from work process measures, and (6) be automated to the maximum extent possible. Measures of sub-processes or internal operations should not be used unless they have a major predictable impact on the final output characteristics. Timeliness measures are typically expressed as average days it takes for a customer to receive a product or service or as the percentage goods or services provided within prescribed time frames. Quality measures gauge conformance to objective use requirements and are typically expressed as the number of defects in the product as reported by the customer or number of customer complaints reported. Customer satisfaction is a measure of conformance to customer expectations. Customer satisfaction is best measured directly with customer surveys.

Exhibit Fund-12 Performance & Quality Measures

CASH MANAGEMENT PLAN

Component: _____

Activity group: _____
(Dollars in Thousands)

Provide a monthly *and* cumulative phasing of disbursements, collections, and net outlays for the current and budget year(s). *Put each year on a separate page.*

	Current Year		
	<u>Disbursements</u>	<u>Collections</u>	<u>Net Outlays</u>
October			
November			
December			
January			
February			
March			
April			
May			
June			
July			
August			
September			

	<u>Disbursements</u>	<u>Collections</u>	<u>Net Outlays</u>
October			
November			
December			
January			
February			
March			
April			
May			
June			
July			
August			
September			

Exhibit Fund-13 Cash Management Plan

DEFENSE BUSINESS OPERATIONS 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				
Gross Sales	XX,XXX.X ^{A/}			
Operations	(XX,XXX.X)			
Capital Surcharge	(XX,XXX.X) ^{B/}			
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/}	(DeCA Resale and Supply Management Only)		
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/}			
Less Capital Surcharge Reservation	XXX.X ^{G/}			
Plus <i>Passthroughs or Other</i> Appropriations Affecting NOR	X,XXX.X ^{H/}			
Other Adjustments Affecting NOR (Specify)	X,XXX.X ^{I/}			
Net Operating Result	XX,XXX.X ^{J/ 3/}			
<i>Prior Year Adjustments</i>	XX,XXX.X			
Other Changes Affecting AOR (Specify)	XX,XXX			
Accumulated Operating Result	XX,XXX.X			
<i>Non-Recoverable Adjustment Impacting AOR (Specify)</i>	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.

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 should be left blank if a capital surcharge is not included in price (also see note F).
- C. Other income is to include passthroughs.
- 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. The cost of material sold from inventory will be computed differently for wholesale and retail divisions. For wholesale divisions, the surcharge shall be subtracted from the sale and the inflation added. For consumable items, the intent is to reflect anticipated sales at latest acquisition price plus inflation. For repairable items, the computation becomes more complex. Sales for repairable items shall be split between sales at standard and sales at exchange price. For sales at standard, the surcharge is removed from the sales and inflation is added similar to consumable items. For sales at exchange price, the cost of material sold reflects the sales at repair cost including rate changes for the appropriate year. For retail divisions, the cost of material sold from inventory is the obligations recorded during the fiscal year.
- 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. Capital Surcharge reservation here should offset capital surcharge in revenue. This line is left blank when there is no capital surcharge revenue.
- H. This represents any appropriations realized to offset current period expenses (e.g., *Passthroughs*, appropriations to cover underutilized plant capacity). Appropriations for war reserve material do not offset current period expenses, do not affect NOR, and should therefore be reported as an adjustment below NOR.
- I. This represents (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) for unfunded expenses resulting from a policy change, which must be deleted prior to determining NOR.
- J. The Net Operating Result (NOR) is the net result from operations. Only NOR will be carried into AOR in the Government Equity portion of the balance sheet. We are using NOR as a performance indicator of how activity groups perform in relation to the standard established.

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

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.

1. *Line 8 of the CFO Statement of Operations*
2. *Line 15 of the CFO Statement of Operations*
3. *Line 18 of the CFO Statement of Operations*

New Supply Management Exhibits Fund 14A. New exhibits will be submitted for the Supply Management Activity Groups. These new exhibits have been prepared to refine the concept of a financial management (rather than fiduciary) net operating result in supply management. Its chief features are a simpler definition of material costs, an increased emphasis and more detail on “other than material” costs, and specific information on the impact of sales volume changes on financial results. The purpose of these modifications are to help focus attention on elements of supply operation that are subject to more direct management control. These forms are substitutes for the current Fund 14 exhibit in the OSD budget submission for the supply activity group. The Fund 14 is still required for uniform displays of operating results in the President’s budget.

Page 3 of 3

**Fund 14A Exhibit Part 1
SUPPLY OPERATIONS NET OPERATING RESULTS**

		PY		CY		BY1	BY2
	Pres	Revised	Revised				
	<u>BUDGET</u>	<u>SALES</u>	<u>COSTS</u>	<u>BUDGET</u>	<u>REVISED</u>	<u>BUDGET</u>	<u>BUDGET</u>
Gross Sales							
Reimbursements							
Other Income							
Less Credits							
Less Allowances/Discounts							
Plus Appropriations							
<u>NET REVENUE</u>							
Sales at LAC/LRC							
Inflation							
Repair Price Change							
Condemnations							
Less Credits							
Net Cost of Goods Sold Whsl							
Net Cost of Goods Sold Retail							
Supply Ops (Net)							
Payroll (mil/civ)							
Service Contracts							
RPM							
Depreciation							
Other							
Dist Depots							
Lines							
Storage							
DLSC/DAASO/DRMS							
DISA							
DFAS							
Transportation							
Other							
<u>Subtotal Expenses</u>							

Fund 14A Operating Results Worksheet

Part 1

Page 1 of 3

SUPPLY OPERATIONS NET OPERATING RESULTS

		PY		CY		BY1	BY2
	Pres	Revised	Revised				
	<u>BUDGET</u>	<u>SALES</u>	<u>COSTS</u>	<u>BUDGET</u>	<u>REVISED</u>	<u>BUDGET</u>	<u>BUDGET</u>
Loss/Damage/Spoilage							
Wholesale							
Retail							
AOR Adjustment							
Capital Surcharge							
Subtot Surcharge (\$)							
Surcharge (%)							
<u>Subtot Net Sales/Actual</u>							
Less AOR Adj							
Reimb Expenses							
Other							
<u>NET DEDUCTIONS</u>							
<u>NET OPERATING RESULT</u>							

**Fund 14A Exhibit – Part 2
(Worksheet for Actual AOR)
SUPPLY OPERATING PRICING**

	PY Est	Actual
+ Gross Sales (At Standard)	_____	_____
+ Reimbursables (At Cost)	_____	_____
+ Other Income	_____	_____
- Credit Returns	_____	_____
- Allowances/Discounts	_____	_____
+ Appropriations/Other	_____	_____
Subtotal Net Revenues (1176)	_____	_____
Collections (check)	_____	_____
<u>Wholesale Materiel Costs</u>		
@ LAC _____	_____	
@ LRC _____	_____	
Inflation	_____	_____
Repair Price Change	_____	_____
Condemnations	_____	_____
- Credit Returns	_____	_____
Subtotal Net Cost of Goods Sold (Wholesale)	_____	_____
Subtotal Net Cost of Goods Sold (Retail obs/sales) _____		_____
Operating Costs	_____	_____
+Other Gains/Losses	_____	_____
Capital Surcharge	_____	_____
Net Deductions	_____	_____
Disbursements (check)	_____	_____
Supply Operating Result (SOR) _____	_____	
Pricing Adjustment Required (Act SOR-PY Est SOR)		_____

This worksheet will be used to prepare and justify adjustments to Accumulated Operating Results for rate calculation purposes

Instructions for the Preparation of Exhibit Fund-15 Fuel Data

The purpose of Fund-15, Fuel Data, is to provide a 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. 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.

**DEFENSE BUSINESS OPERATIONS FUND
COMPONENT/ACTIVITY GROUP: _____**

MATERIAL INVENTORY DATA

(Dollars in Millions)
FISCAL YEAR

Total Mobilization ----- Peacetime -----
Operating Other

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.). Price inventory 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

DEPARTMENT OF (COMPONENT NAME)

Activity group: _____

**Summary of Real Property Maintenance Expenses
(\$ in Millions)**

FY PY FY CY FY BY1 FY BY2

Amount Funded:

Recurring Maintenance (preventive/cyclical)

Major Repair Projects (put things back to the way they were)

Total Funded Amount

Backlog - End of Year (BMAR) (not more than 4 years old)

[Provide narrative explanations of changes in the funded program and the unfunded backlog. Also discuss existing policies, if any, relative to acceptable levels of backlogs or goals to eliminate backlogs, as applicable. Provide milestones where appropriate.]

Exhibit Fund-17 Summary of Real Property Maintenance

**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.

Exhibit Fund-18 Fund Summary

**Military and Civilian Personnel
by End Strength and Full-Time Equivalencies (FTEs)**

Service or Agency: _____

Activity group: _____

<u>Personnel Summary:</u>	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY1</u>	<u>FY BY2</u>	<u>Change FY CY/FY BY1</u>	<u>Change FY BY1/FY BY2</u>
---------------------------	--------------	--------------	---------------	---------------	--------------------------------	---------------------------------

Active Military End Strength

- Army
 - Officer
 - Enlisted
- Navy
 - Officer
 - Enlisted
- Marine Corps
 - Officer
 - Enlisted
- Air Force
 - Officer
 - Enlisted

1/ Military end strength will agree with the amounts shown on the Fund-20 Exhibit entitled, "Military Personnel, End Strength by Grade."

Total Active Military End Strength 1/

Civilian End Strength

- U.S. Direct Hire
- Foreign National Direct Hire
- Foreign National Indirect Hire
- Total Direct Hire

2/ Civilian end strength and FTE data will agree with the directly funded amounts reflected on lines 1 through 5 of the Fund-21 Exhibit entitled, "Civilian Personnel Costs by Activity group."

Total Civilian End Strength 2/

Exhibit Fund-19 Military and Civilian Personnel by End Strength and FTEs

**Military and Civilian Personnel
by End Strength and Workyears/FTEs**

Service or Agency: _____

Activity group: _____

<u>Personnel Summary:</u>	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY1</u>	<u>FY BY2</u>	<u>Change FY CY/FY BY1</u>	<u>Change FY BY1/FY BY2</u>
---------------------------	--------------	--------------	---------------	---------------	--------------------------------	---------------------------------

Military Workyears

Army

Officer
Enlisted

Navy

Officer
Enlisted

Marine Corps

Officer
Enlisted

Air Force

Officer
Enlisted

Total Military Workyears

Civilian FTEs

U.S. Direct Hire

Foreign National

Direct Hire

Total Direct Hire

Foreign National Indirect Hire

Total Civilian FTEs

**Military Personnel, Work years by Grade 1/
Total Program**

Service or Agency: _____

Activity group: _____

	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY1</u>	<u>FY BY2</u>
<u>Commissioned Officers</u>				
0-10 (enter rank)				
0-9 " "				
0-8 " "				
0-7 " "				
0-6 " "				
0-5 " "				
0-4 " "				
0-3 " "				
0-2 " "				
0-1 " "				
Total				
<u>Warrant Officers</u>				
W-4 (enter rank)				
W-3 " "				
W-2 " "				
W-1 " "				
Total				
Total Officers				
<u>Enlisted Personnel</u>				
E-9 (enter rank)				
E-8 " "				
E-7 " "				
E-6 " "				
E-5 " "				
E-4 " "				
E-3 " "				
E-2 " "				
E-1 " "				
Total				

1/ Excludes active duty personnel paid from Civil Functions, Reserve, and Guard appropriations.

2/ Entry rank if different from Service.

3/ *The workyears shown will be calculated bases on the prior three years average fill rate. The fill rate is calculated by dividing actual on board by the authorized amount for each grade. Reimbursement will be calculated based upon the workyears multiplied by the civilian equivalency rate for each grade..*

Exhibit Fund-20 Military Personnel, Work Years by Grade (Active)

Service or Agency: _____
 Activity group: _____

Civilian Personnel Costs by Activity group
FY BY1/FY BY2 Budget Submit/President's Budget
FY_(PY/CY/BY1/BY2)
(\$ in Thousands)

	<u>FTE Begin</u>		<u>FTE End</u>										
	<u>Strength</u>		<u>Strength</u>			Basic	Over-	Holiday		Total	Total	Compensation	
	<u>Total</u>	<u>FTP</u>	<u>Total</u>	<u>FTP</u>	<u>FTEs</u>	<u>Comp</u>	<u>Pay</u>	<u>Pay</u>	<u>Other</u>	<u>Variables</u>	<u>Comp</u>	<u>Benefits</u>	<u>& Benefits</u>
	a	b	c	d	e	f	g	h	i	j	k	l	m
1. Direct Hire Civilian:													
a. U.S. Employees													
(1) Classified & Admin													
(a) Senior Executive													
(b) General Schedules													
(c) Special Schedules													
Subtotal Classified & Admin						(F/E)				(J/F)	(K/E)	(L/F)	(M/E)
(Rate)													
(2) Wage Board													
(Rate)													
(3) Other													
(Rate)													
Subtotal U.S. Employees													
(Rate)													
b. Foreign National Direct Hire													
(Rate)													
c. Total Direct Hire													
(Rate)													
d. Disadvantaged Employment													
(Rate)													
2. Foreign National Indirect Hire													
(Rate)													
3. FN Separation Liability Accrual													
a. FN Direct Hire													
b. FN Indirect Hire													
4. Benefits for Former Employees (OC-13)													
a. U.S. Direct													
b. FN Direct Hire													
5. TOTAL CIVILIAN PERSONNEL													
(Rate)													

Use these formulas to calculate average salaries and rates (col x/col y)

Display end strength, workyear, and funding data for disadvantaged employment. Show data for all years.

Do not display FTP or benefit data for FN Indirect Hire

CIVILIAN PERSONNEL COSTS
Fund-21 Exhibit Instructions

Separate Fund-21 exhibits must be prepared for PY, CY, BY1, BY2 for each Military Department in total and for each appropriation/fund in which civilian personnel are funded. Exhibit Fund-21 is a modified OP-8 Exhibit. A modified OP-8 Exhibit can be submitted in lieu of the Fund-21 Exhibit.

Rate data on the Fund-21 exhibit should be shown parenthetically. To calculate the required rate data, use the formulas displayed on the Fund-21 Exhibit. Show the average salary for Basic Compensation, overall salary for Total Compensation, and FTE cost for Compensation and Benefits. Show the other rate data, as a percentage in decimals to five places, for total variables and benefits.

Full-time equivalent end strength (FTE) vice end strength authorizations will be displayed for all beginning and ending end strengths. FTE end strength is the actual or estimated number of employees on board as of 30 September. The beginning FTE end strength must agree with previous FY's September 30 FTE end strength.

Display end strength for disadvantaged employment. Display disadvantaged employment for all years. The approved FTE employment estimates will include persons appointed under the Workers Trainee Opportunity Program, Federal Cooperative Education Program, and the Federal Junior Fellowship Program, as well as certain other programs that in the past were referred to as "Ceiling Exempt"

In accordance with the Federal Employees Part-Time Career Employment Act of 1978 (Public Law 95-437), only part-time permanent employees are counted on a full time equivalent basis, i.e., an individual working 30 hours a week becomes .75 of an end strength. There is no adjustment for other part-time or intermittent employees - these employees would be counted on an individual basis not on a fractional basis.

Consult either DoDI 7330.18 or the Office of Personnel Management's Federal Personnel Manual (FPM) for definitions of full-time employees with permanent appointments (FTP). FTP (Full-Time Permanent), according to OMB Circular A-11, is the number of full-time employees with permanent appointments that are on board, or planned to be on board, as of the end of each fiscal year displayed. Such entries will exclude anticipated vacancies. Do not display FTP for Indirect Hire Foreign Nationals. Consult the DoDI or FPM to determine if your Foreign National Direct Hire employees are considered FTP employees.

Do not include overtime workyears in FTE totals. The FTEs on the Fund-21 exhibit are straight-time FTEs only. Where applicable, the BA-3 exhibit supporting the President's budget must agree with the FTE on the automated computer reports printed from the "Budget Review System" (BRS) and with the personnel summary data included in the program and financing schedules (galleys) for the printed budget. (See OMB Circular A-11.)

For the PY supporting the FY BY President's budget request, the end strength data must agree with the SF-113A, Monthly Report of Federal Civilian Employment, provided to OPM to report military functions employment levels as of 30 September.

- Direct hire FTE end strength data on the Fund-21 exhibit must agree with data provided on the 30 September supplement to the SF-113A report. This supplement is entitled, Report of Part-Time Permanent Employees on a Fractional Basis.
- Indirect hire end strength data must agree with the Indirect Hire supplement to the 30 September SF-113A report.
- The FTP end strength data must agree with data provided on line 30, Full-Time with Permanent Appointments, of the 30 September SF-113A.

Civilian Personnel Direct Funding (#7) will be total Civilian Personnel (#5) less reimbursable funding (#6). Provide end strength, FTE, and funding reimbursable data for all of the columns. Appropriations/funds (e.g., Defense Business Operations Fund, etc.) that are not funded with budget authority show all of the data as reimbursable so that "0" will be displayed in every column on the "Civilian Personnel Direct Funding" (#7) line.

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.

Department of: (Service or Component Name)

Activity group: _____

**Statement of Financial Condition
Part I**

(Dollars in Millions)

FY PY FY CY FY BY1 FY BY2

Revenues and Financing Sources

1. Appropriated Capital Used
2. Revenues from Sales of Goods and Services
 - a. Gross Revenue from Sales
 - b. Less: Credits Allowed on Sales
3. Other Revenue and Financing Sources
4. Total Revenues and Financing Sources

Expenses

5. Program or Operating Expenses
6. Cost of Goods Sold and Services Provided
7. Depreciation and Amortization
8. Bad Debts and Write-offs
9. Other Expenses
10. Total Expenses
11. Revenue Less Cost Incurred Before Extraordinary Items
12. Plus (Minus) Extraordinary Items
13. Net Operating Results
14. Plus (Minus) Nonrecoverable Amounts
15. Recoverable Operating Results

Department of: (Service or Component Name)

Activity group: _____

Statement of Financial Condition
Part II

(Dollars in Millions)

	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY1</u>	<u>FY BY2</u>
Assets:				
Selected Assets:				
Cash				
(Available for Operations)				
(Required for Capital Purchases)				
Accounts Receivable				
Advances Made				
Inventories				
Other Assets				
Capital Property (Net)				
Total Assets <u>1/</u>				
Liabilities:				
Selected Liabilities:				
Accounts Payable				
Accrued Liabilities				
Advances Received				
Unfunded Liabilities				
Other Liabilities				
Total Liabilities <u>2/</u>				
Government Equity:				
Appropriations/Reappropriations				
Paid-in Capital (Assets Capitalized				
Less Liabilities Assumed)				
Earnings Used for Operations				
Accumulated Operating Results				
Total Government Equity				
Total Liabilities and Equity <u>3/</u>				

1/ Line 1M of the CFO Statement of Financial Position

2/ Line 4C of the CFO Statement of Financial Position

3/ Line 7F of the CFO Statement of Financial Position

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, workyears, or end strength, as requested. Exclude military personnel from all data.			
Regular Hours				
Paid Leave Hours				
Overtime Hours				
Total Hours				
FTEs	Compute FTEs by dividing the applicable total number of hours by the number of hours in a work year.			
<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				
FTEs	Show the number of hours per FTE used to convert hours to FTEs for each fiscal year.			
<u>General & Administrative (G&A):</u>	Show total end strength levels.			
Regular Hours				
Paid Leave Hours				
Overtime Hours				
Total Hours				
FTEs	FTE utilization rates are calculated by dividing the total number of FTEs by the quotient of: $\frac{E/S \text{ Begin year} + E/S \text{ End Year}}{2}$			
Full-time Equivalencies (FTEs)				
<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>				

DEPOT MAINTENANCE
DEPARTMENT OF (COMPONENT NAME)
ACTIVITY GROUP: _____

Summary of Personnel Data - Part II

	<u>Civilian Personnel</u> FTEs	<u>Military Personnel</u> Workyears
1. FY PY Actual Levels: (Direct Labor) Production Overhead (General & Administrative)	Enter total FY PY FTEs. Also show FTEs by direct labor, production overhead, and general and administrative efforts.	
2. FY CY President's Budget (Direct Labor) (Production Overhead) (General & Administrative)	Enter total FY CY FTEs provided for in the FY CY President's budget. Also show FTEs by direct labor, production overhead, and general and administrative efforts.	
3. Productivity Initiatives and Other Efficiencies: a. b. c. (etc.)	Show changes in FY CY FTEs due to productivity initiatives or other efficiencies.	
4. Program Changes: a. b. c. (etc.)	Show changes in FY CY FTEs due to all changes other than productivity initiatives or other efficiencies shown in 3. above.	
5. FY CY Current Estimate (Direct Labor) (Production Overhead) (General & Administrative)	Enter total FY CY FTEs provided for in the current FY CY estimate. Also show FTEs by direct labor, production overhead, and general and administrative efforts.	
6. Productivity Initiatives and Other Efficiencies: a. b. c. (etc.)	Show changes in FY BY1 FTEs due to productivity initiatives or other efficiencies.	
7. Program Changes: a. b. c. (etc.)	Show changes in FY BY1 FTEs due to all changes other than productivity initiatives or other efficiencies shown in 6. above.	
8. FY BY1/FY BY2 Estimates (Direct Labor) (Production Overhead) (General & Administrative)	Enter total FY BY1/FY BY2 FTEs by direct labor, overhead, & general & administrative efforts. Provide the same track between BY1 & BY2 as is required between CY & BY1.	

Headquarters
Component: _____
Activity group: _____
Date: _____

Headquarters Organization (specify)	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY1</u>	<u>FY BY2</u>
(\$ in Millions)				
Cost of Operations:				
Civilian and Military Personnel				
Travel				
Contract Services				
Supplies				
Equipment				
Other				
Total				
Capital Purchases (Program Year Authority):				
ADP & Telecommunications Equipment				
Non-ADP & Telecommunications Equipment				
Minor Construction				
Software Development				
Total				
End Strength/FTEs:				
Civilian				
SES				
GS				
WB				
Total				
Military				
Officers				
Enlisted				
Total				

(This exhibit should be filled out for each organizational headquarters whose costs are financed through the Fund, i.e., HQ Staff, Major Command, Intermediate Level Command, or Base Level. Headquarters should include support organizations whose incremental costs are necessitated by the existence of *DWCF* activities, such as Regions, Service Centers, or Divisions, but which do not directly provide goods or services.)

Exhibit Fund-25 Headquarters Cost

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

FY _____

(Dollars in Thousands)

	<u>Revenue</u>	<u>Monthly Plan Costs</u>	<u>Net Operating Result</u>
October			
November			
December			
January			
February			
March			
April			
May			
June			
July			
August			
September			

Instructions: Provide a monthly and cumulative phasing of revenue, costs, and net operating results for the current and budget years.

Cumulative Plan by Month

	<u>Revenue</u>	<u>Costs</u>	<u>Net Operating Result</u>
October			
November			
December			
January			
February			
March			
April			
May			
June			
July			
August			
September			

Exhibit Fund-26 Revenue and Expense Phasing Plan

**Defense Finance and Accounting Service
Customer Funding Summary
Component: _____**

FY _____

<u>Billing Rate (\$)</u>	<u>Estimated Workload</u>	<u>Total Cost (\$ in thousands)</u>
-------------------------------------	--------------------------------------	--

Output Measure

(List DFAS output measures and billing rates for budget years.)

Funding Requirement

Appropriation/Activity group

Amount

(List by appropriation DFAS reimbursements from *DWCF* activity groups)

The Components should provide in their budget narrative an estimate of the DFAS cost for each business are and complete the Fund-27, DFAS Customer Funding Summary.

Exhibit Fund-27 DFAS Customer Funding Summary

EXECUTION PERFORMANCE
Quarterly Analysis

For Quarter: _____

FY CY
_____ (Component and Activity group name)

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

UNIT COST

% OF FY PY COSTS

TOTAL ORDERS RECEIVED *Show actual fiscal year to date, Budget amount and Projected year end amount only.*

NOR (\$ in M)

REVENUE (\$ in M)

COST (\$ in M)

OUTLAYS (\$ in M)

COLLECTIONS (\$ in M)

DISBURSEMENTS (\$ in M)

ACCOUNTS RECEIVABLES (\$ in M)

NEW ADVANCE BILLINGS CURRENT FY

TOTAL UNLIQUIDATED ADVANCE BILLINGS

ANALYSIS

RECOMMENDED ACTIONS:

YEAR END PROJECTION ASSUMPTIONS:

IMPACT IN FY BY:

Exhibit Fund-28 Execution Performance Quarterly Analysis

**Civilian Personnel Execution Performance
Quarterly Analysis**

Activity group _____

Date _____

<u>End Strength</u>		<u>Work Years (FTE's)</u>	
<u>PLAN</u>	<u>ACTUAL</u>	<u>PLAN</u>	<u>ACTUAL</u>

As of End of PY
As of End of Current Quarter
Projected as End of Current FY

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

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

ATTRITION RATE (Plan vs. Actual)

DIRECT LABOR HOURS Show Actual Fiscal Year to Date hours only. This DLH section does not apply to Supply, DeCA, DISA, or
 TRANSCOM Activity Groups.

Regular Hours
Overtime Hours

ANALYSIS

RECOMMENDED CORRECTIVE ACTIONS

Exhibit Fund-29 Civilian Personnel Execution Performance Quarterly Analysis