

**VOLUME 2B, CHAPTER 9: “DEFENSE WORKING CAPITAL FUND BUDGET  
JUSTIFICATION ANALYSIS”**

**SUMMARY OF MAJOR CHANGES**

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

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

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

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

The previous version dated June 2010 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Complete review and revision of previous updates.	Update
0901	Section breaks added for each specific topic.	Update
090101	Identified other applicable Revolving Funds.	Update
090102	Clarified terminology and phrasing. Updated for technical correctness.	Update
090103	Section renamed and updates incorporated from the DWCF cash study.	Update
090104	Section renamed and updates incorporated for the DWCF Capital Investment Program (CIP). New restriction on Minor Construction (P.L. 112-81) and revised threshold to \$250K.	Update
090105	Section renamed and clarification.	Update
090107	Section renamed, clarifications and formatting.	Update
090108	Section renamed, Standardized Rate redefined, clarifications.	Update
090109	Section inserted.	Update
090110	Section inserted.	Update
090111	Section inserted.	Update
090112	Section inserted.	Update
0902	Section combined with 0903 and 0904 is eliminated.	Revision
090201	Inserted “budget justification material”.	Revision
090202	Section 090205 combined with 090202 and eliminated.	Revision
090203	Supply definitions revised, expanded and examples provided.	Revision
090204	Non-supply definitions expanded and revised. Some definitions moved to more applicable sections.	Revision
0903	Exhibit updates and revisions.	Revision

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
090301	Modifications allowed to exhibit formats for clarification.	Update
090302	Major revisions to exhibits: SM-3a, SM-5a, SM-5b, SM-16, Fund-6, Fund-9a, and Fund-9c. Format revisions to exhibits: Fund-3, Fund-7, Fund-28 and Fund-13. Updates for exhibits: SM-1, Fund-1a and Fund-30. Added the Fund-11b to replace the Fund-7a.	Revision

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## CHAPTER 9

DEFENSE WORKING CAPITAL FUND BUDGET JUSTIFICATION ANALYSIS

## \*0901 GENERAL

090101. Purpose

This chapter highlights the policies and justification procedures underlying budget formulation for Defense Working Capital Funds (DWCF), including the Defense Commissary Agency Working Capital Fund and Building Maintenance Fund. In addition, this chapter provides guidance for the National Defense Stockpile Fund and Pentagon Renovation Maintenance Revolving Fund, where applicable. The DWCF is also referred to as the “Fund” in this chapter.

## 090102. Background

A. The DWCF was established to satisfy recurring Department of Defense (DoD) requirements using a buyer-and-seller approach. The customers of the DWCF are the generators of requirements and justify the need for appropriated funds to the Congress. These organizations in many instances are not the entity that executes 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 management principles. Unlike profit-oriented commercial businesses, the DWCF goal is to break even over the long term. The DWCF establishes selling prices in the budget that are normally stabilized or fixed during execution to mitigate the impact of unforeseen fluctuations that would impact on customers’ ability to execute the programs approved by the Congress. Exceptions to stabilized prices are listed in section 090107 of this document.

B. The basic principle of the DWCF 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 cost conscious. Requiring the operating forces to pay for support they receive provides increased assurance that services supplied and paid for are actually needed.

C. Prior to the establishment of an activity under DWCF, the Secretary or Assistant Secretary of the Military Department or the Director for a Defense Agency, as applicable, shall prepare, sign, and submit a charter that sets forth the scope of the activity to the Under Secretary of Defense (Comptroller) for approval. Four criteria are used in evaluating potential activities for inclusion into the Fund. The four criteria are: 1) identification of outputs that relate to products or services provided by the business to customers; 2) establishment of a cost accounting system to collect costs of producing outputs; 3) identification of customers so that resources can be aligned with the requirements; and 4) evaluation of buyer-seller advantages and disadvantages to include assessment of the customers’ ability to influence cost by changing demand.

D. The National Security Act of 1947, as amended (Title 10 United States Code (U.S.C.), Section 2208) and other provisions of chapter 131 of Title 10, U.S.C. provide the Department's revolving fund authority (<http://www.gpo.gov/fdsys/granule/USCODE-2010-title10/USCODE-2010-title10-subtitleA-partIV-chap131-sec2208/content-detail.html>).

E. The DWCF evolved from two distinct types of activities. The first type, the Stock Funds that **procured** material from commercial sources and **held** an inventory, are now known as Supply activities. These activities sell the material to authorized customers who need the material to achieve weapon systems readiness or provide required personnel support items. The second type, known then and now as Industrial Funds, provide industrial and commercial goods and services such as depot maintenance, transportation, and research and development. Although both types of revolving funds are financed primarily by reimbursements from customers' appropriated accounts, Supply activities use Contract Authority (CA) and Industrial Funds use Reimbursable Authority.

F. The Department of Defense expanded the use of business-like financial management practices through the establishment of the Defense Business Operations Fund (DBOF) on October 1, 1991. Building on **Stock and Industrial Fund** principles, cost and performance are linked and the Fund's managers are expected to operate within cost goals established in operating and capital budgets.

G. The DBOF combined existing operations that were previously managed as individual funds into a single Treasury account. On December 11, 1996, the Under Secretary of Defense (Comptroller) reorganized the DBOF, retaining the numerous benefits and improvements resulting from the implementation of DBOF while clearly establishing each **DoD Component's** responsibility for managing the functional and financial aspects of their **respective DWCF** activities, by creating four **DoD Component** Working Capital Funds: Army, Navy, Air Force, and Defense-Wide. On December 16, 1997, a separate **DoD Component** Working Capital Fund was established to consolidate the separate Military Departments' commissaries into the Defense Commissary Agency effective in FY 1999.

H. Prior to FY 1992, industrially-funded activities did not receive Annual Operating Budget (AOB) funding documents. All funding authority was provided through customer orders. With the implementation of the DBOF, the Office of the Under Secretary of Defense (Comptroller) began to issue AOBs that provide official and administrative management cost goals and Contract Authority for the Capital Investment Program (CIP) for each DWCF Activity within a DoD Component. The Department has retained this process for the DWCFs.

#### 090103. Cash Management Policy

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

##### A. Cash Management

1. In **peacetime**, DoD's policy is that the Components will 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 operating costs to include prior year losses; projecting workload accurately; and meeting established operational goals.

2. Cash management is an integral part of operational and cost management. Managers at each DoD Component Working Capital Fund are responsible for cash management. The Department strongly encourages the Component Working Capital Funds' management to require each subordinate activity to maintain a cash balance sufficient for its requirements as part of the managers' responsibility for control of and accountability for their operations.

3. Any transfers of cash between DWCF activities, whether directed internally by the Components or as the result of audit, Departmental guidance, or congressional direction, will be included in all the affected DWCF Activities' budgets (Fund-13, "Cash Management Plan"). Transfers between DoD Component Working Capital Funds (e.g., Army to Air Force) or between the DWCF and appropriation-funded activities are 1) subject to transfer notice requirements in the annual DoD Appropriations Act general provisions and section 2208(r) of Title 10, and 2) require congressional approval by the Defense oversight committees.

4. The major points included in the policy are:

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

b. Activities should budget to achieve an operating cash level sufficient to maintain a positive cash balance throughout the budget year. Each DoD Component shall establish an operating cash target measured in days of operating cash. Calculate days of available cash as follows: Divide the total operating budget disbursements for 2 fiscal years (current year plus 1) by available workdays in those fiscal years as documented in OMB Circular A-11. Multiply the result by the number of days of cash desired. Add the projected disbursements for 6 months of Capital Investment Program Outlays, calculated by dividing the total projected capital disbursements for the fiscal year in half. The Services/Agencies may add the following adjustments to the cash level calculated above if approved by the Director, Revolving Funds.

(1) Accumulated Operating Results (AOR) Retention – The AOR Retention represents the amount planned for return to customer accounts via downward rate adjustments. The AOR line of the Exhibit Fund-14, "Revenue and Costs," in the approved budget submission constitutes the basis for the adjustment. Services/Agencies can plan for the return of AOR in a single year or over 2 years. Single year AOR return will add the full amount of the return to ensure availability of cash; 2-year AOR returns will add one-half of the AOR amount shown on the Fund-14 exhibit.

(2) Unliquidated Direct Appropriation (UDA) – The UDA represents funds appropriated directly to a Service/Agency Working Capital Fund that are



obligated in the year received but may not fully liquidate until future years. The UDA adjustment will reflect the amount of direct appropriations that remains unliquidated. Components will phase the expected disbursements of the UDA in accordance with the approved Department of Defense Outlay Rates (as a percent of budget authority) as displayed in the prior year's Financial Summary Tables of the Department of Defense Budget submission. Components will use the Other Procurement outlay rate applicable to their organization. The UDA phase plans will accompany the submission of a Component's Exhibit Fund-13, "[Cash Management Plan](#)."

(3) [Commodity/Market Adjustment \(CMA\)](#) – The CMA is the marginal cash that will be required to re-purchase goods or services from the commodity/business market at a higher price than was budgeted in the current year's President's Budget. The CMA will reflect the cash impact of the specified market fluctuation.

(4) [Other Adjustments](#) – Other adjustments to the budgeted operating cash level may be submitted in the Budget Estimate Submission, subject to approval on a case-by-case basis in the decision document process.

c. Components will develop cash plans, incorporating collections, disbursements, direct appropriations, and other cash transactions based on Component estimates, to facilitate the cash management process. This annual plan will be initially developed during the budget process and will be an integral part of the budget document ([Exhibit Fund-13, "Cash Management Plan"](#)).

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

e. Components must [be able to reconcile and](#) explain variances between cash balances and [AOR](#). In addition to explaining variances based on operations, Components must also explain non-operational events (e.g., transfers or Capital outlays in excess of depreciation expense) that affect cash and reflect them in the Revenue and [Cost Statement](#) ([Exhibit Fund-14, "Revenue and Costs"](#)).

5. Managers will use Advance Billing of Customers only to avoid Anti-Deficiency Act Violations. [Prior to issuing an advance billing, Components must obtain approval from the Under Secretary of Defense \(Comptroller\) and comply with section 2208 of Title 10 U.S.C.](#), which, in paragraph (I), stipulates that advance billings for the Defense Working Capital Funds may not exceed \$1.0 billion in any year and requires that the Secretary of the Military Department notify Congress within 30 days after issuing an advance billing. Components must provide a copy of the congressional notification letter to the Director, Revolving Funds.

6. Cash management is an integral part of DWCF activity management. The [DoD](#) Components maintain operational control of actions taken by each

DWCF activity that result in cash disbursements and collections. Decentralizing cash management to the respective activities will provide the DoD Components additional control of and responsibility for their operations and require each management level to participate in the execution of the policy 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 and amortization expenses. To minimize costs within DWCF activities, all goods and services should be purchased from the source that provides them at the least cost unless there are other considerations such as mobilization or readiness. Direct, indirect production, and overhead costs are to be included in the evaluation when comparing costs of organic or commercial sources.

#### 090104. Capital Investment Program (CIP) Policy

These policy statements address preparation of the program and budget review submission.

A. The Capital Investment Program (CIP) justifies the purchase of assets that equal or exceed capitalization thresholds and have a useful life of 2 or more years. Section 1403 of the National Defense Authorization Act for FY 2011 (Public Law 111-383) amended section 2208(k) of Title 10 U.S.C., increasing the capital asset threshold to amounts equal to or greater than \$250,000 for: 1) an unspecified minor military construction project (under Title 10 U.S.C., section 2805(c)); 2) automatic data processing equipment or software; 3) any other equipment; and 4) any other capital improvement.

B. With the exception of major construction and items listed in paragraphs 090104.E and 090104.H below, acquisition of all capital assets for use by activities within the Fund will be financed through the Fund using Contract Authority (Title 10 U.S.C., section 2208, paragraphs (k)-(1) and (2)). Components shall not use the CIP to establish a new or expand an existing organic capability except as specifically justified in the President's Budget Request (Exhibit Fund-9b, "Capital Investment Justification").

C. The legal requirements for the DWCF Capital Budget are found in Title 10 U.S.C., section 2208, paragraphs (k)-(1) and (2), (m), and (o)-(1) (b). Specific direction on minor construction limitations is found in Title 10 U.S.C., section 2805.

D. The CIP consists of the following four major categories of assets: 1) Automated Data Processing Equipment (ADPE); 2) Non-ADPE Equipment; 3) Software Development, whether internally or externally developed; and 4) Minor Construction.

E. The DWCF Capital Budget specifically excludes the following items, which must be financed by appropriated funds:

1. Major Range and Test Facility Base (MRTFB) Activities Items (equipment and minor construction) that meet the DoD Investment capitalization criteria for use by MRTFB operating within the DWCF

2. Military and tenant support functions
3. Major weapons systems (such as aircraft, ships, tanks, barges, etc.), and general-purpose passenger type vehicles
4. Equipment and minor construction projects for mobilization requirements, but not used during peacetime operations
5. Equipment initially procured and usually furnished as part of a weapons system and/or support system **including modifications** (includes initial common support equipment for depot maintenance support of new weapons systems)
6. **Materiel** normally funded by appropriated funds and provided to contractors as Government-Furnished **Materiel (GFM)**. The **GFM** is incorporated into, used in conjunction with, or consumed in the production of an end product. The customer shall use appropriated funds to purchase the **GFM** and provide it at no cost to the DWCF
7. Minor construction projects for non-DWCF activity or military support functions
8. Construction and facility investment projects that exceed the amount specified in Title 10 U.S.C., section 2805 for funding under Operation and Maintenance appropriations
9. Environmental projects financed or submitted for funding by the applicable Environmental Restoration Transfer appropriation
10. Capital Investments for morale, welfare, and recreation activities
11. Such other exclusions as may be approved by the USD(C).

F. The approved CIP budget permits a DWCF activity to use Contract Authority to purchase capital assets prior to recognizing budget authority based on funded customer orders and/or the accumulating cash balances. However, collections from customer orders are used to liquidate obligated Contract Authority (SF-133 line 1826). This amount is not to exceed the budgeted depreciation plus capital surcharge, if any, incorporated into the rates (not the actual depreciation expense recorded in the year of execution).

G. As an administrative control of resources subject to the rules of Title 10 U.S.C., section 1517, the Anti-Deficiency Act, the DWCF AOBs provide a specific amount of CIP contract authority. Therefore, obligations may not exceed the amount provided.

H. The DWCF customers may procure capital assets through direct appropriations for use by a DWCF activity. However, these assets remain the property of the customer and will not be recorded as Property, Plant and Equipment assets on revolving fund financial statements unless the asset is transferred to DWCF ownership.

1. At the time of transfer, the DWCF activity will record the asset at its net book value and depreciate it over the remaining useful life for accounting purposes. Depreciation does not have to be incorporated into the DWCF rate structure if the DWCF will not be expected to replace the asset at the end of its useful life and acquisition of the asset requires neither Contract Authority nor an unreimbursed cash outlay.

2. The appropriate procurement account will continue to fund the purchase and installation costs for the initial procurement of depot maintenance capital equipment unique to newly introduced platforms or weapon systems (this includes modifications). The capital equipment becomes the property of the depot when it is transferred to or otherwise capitalized by the depot. The depot will treat the equipment as a capital asset and depreciate it for accounting purposes. Funding of subsequent replacement and maintenance of the equipment in the DWCF should be included in the DWCF capital and operating budgets.

I. The DWCF activities shall derive resources needed to finance DWCF capital assets primarily from budgeted depreciation of existing Fund assets by including the estimated depreciation in stabilized rates and prices billed to Fund customers. Volume 4 Accounting Policies, Chapter 6 Plant, Property, and Equipment, of the Department of Defense Financial Management Regulation (DoD FMR) contains guidance on accounting for capital assets that are depreciated for accounting purposes according to depreciation schedules found in subparagraph 060205J, Table 6-7.

J. Budgeted depreciation is the amount factored into the standardized rate to recoup cash outlays associated with the CIP.

1. Activities will calculate and accumulate budgeted depreciation using the straight-line method, which is calculated by dividing the amount to be recouped by the useful life of the asset based on established depreciation schedules. The amount to be depreciated will not be decreased by its residual value. Depreciation will be applied equally among accounting periods during the asset's useful life.

2. For items in the 5-year category, a recovery period of less than 5 years is permitted if the acquiring DoD Component is certain that the useful life of the asset is at least 2 but less than 5 years.

3. Software may be depreciated over a period of 5 or 10 years depending on its nature. The Component may also request a waiver and propose an alternative depreciation period exceeding 10 years. The determining factor should be the actual estimated useful life of the software consistent with that used for planning the software's acquisition.

4. In addition to budgeted depreciation, a capital surcharge may be used to collect cash for the capital outlay if minimum balances are not sufficient to provide adequate budgetary resources to offset budgetary claims (See Volume 3 Budget Execution – Availability and Use of Budgetary Resources, Chapter 19 Working Capital Funds of the DoD FMR).

K. The following budget exhibits are required to document an activity's capital budget request.

1. Exhibit Fund-9a, "Capital Investment Summary," represents the summary data of the four asset categories (ADPE, Non-ADPE, Software, and Minor Construction) at the approved DoD Component project level. The exhibit displays data on annual capital cash outlays and budgeted depreciation. The prior-year column on the Exhibit Fund-9a will show all amounts approved in the most recent President's Budget, adjusted for actual execution year obligations and reprogramming (as depicted on the Exhibit Fund-9c, "Capital Budget Execution").

2. Exhibit Fund-9b, "Capital Investment Justification," provides detailed cost data and narrative justification for each approved DoD Component project level. Components will provide a corresponding Exhibit Fund-9b for each project line item on the Fund-9a exhibit. The exhibit displays the Benefit to Investment Ratio, Savings to Investment Ratio and/or the Payback period. Exhibits Fund-9a and Fund-9b data should agree with, and also should be used for cross-referencing, Exhibit 53 of the Information Technology budget.

3. Exhibit Fund-9c, "Capital Budget Execution" compares and explains the differences between the most recent President's Budget and the current submission by the DWCF Activity for the four asset categories (ADPE, Non-ADPE, Software, and Minor Construction).

L. Each proposed CIP project shall be reviewed to ensure that it satisfies the following criteria for justification and backup:

1. The acquisition of a capital asset meets the Department's long-range planning and programming objectives and satisfies 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.

2. 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.

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

4. The acquisition of a capital asset efficiently and effectively accomplishes the objective for which it is justified. The criteria are: improved efficiency (savings) or effectiveness of operations; replacement of unsafe (locally determined by an

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

M. 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 (ADPE, Non-ADPE, Software, and Minor Construction).

1. Either an economic analysis or cost comparison shall be used to support a project substitution or accomplish a reprogramming request. An economic analysis shall be used for all projects with a cost of \$1,000,000 or more. A cost analysis will be used for projects under \$1,000,000.

2. Activities must complete this pre-investment analysis prior to including the capital asset in the capital budget submission, a reprogramming action, or a project substitution. The originating office of the DoD Component shall maintain these analyses as project documentation support for the capital budget submission and program execution.

3. A cost comparison for investment projects under \$1,000,000 initially shall be prepared in constant base year dollars and shall present a differential cost display by year for up to a 6-year evaluation period, beginning with the budget year for which investment funds are requested.

a. Documentation for a cost comparison shall describe the functional process performed; define the need/requirement/objective; identify workload 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 6-year evaluation period; and provide significant assumptions, constraints, estimating methods, rationale, data sources.

b. The payback period shall be the primary economic indicator used for cost comparisons to rank order within the investment categories of each activity.

4. A pre-investment economic analysis shall be prepared to justify capital investment projects of \$1,000,000 or more. The economic analysis shall be prepared on a net present value (NPV) basis and shall comply with applicable DoD or Component guidance and 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 of the investment fund request.

a. Documentation shall describe the functional process performed; define the need/requirement/objective; present and explain workload projections; identify feasible alternatives; present total costs and the differential costs/monetary benefits in constant, discounted, and current dollars over the expected economic life of the project; present estimating methods/relationships, and data sources; identify significant constraints, assumptions,

and variables; treat sensitivity and uncertainty of key parameters; and address all other quantifiable benefits as well as any intangible benefits influencing the recommended course of action.

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

c. Benefit-to-Investment Ratio (BIR) shall be the primary indicator used to rank order projects of \$1,000,000 or more within the investment categories of each activity. Also consider the payback period in the ranking process.

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

5. Compute the payback period to compare the period of time, in years, necessary for an alternative to repay its investment cost based on the monetary benefits expected. Present this metric in tenths of years (for example, 7.2 years.)

6. Use the BIR to compare project alternatives in terms of all expected monetary benefits, inclusive of whole and partial manpower productivity savings resulting from increased efficiency and other cost avoidance achieved over the total project life under evaluation. Calculate the BIR using discounted constant dollars, as an index value and rounded to two decimal places. A BIR of greater than one indicates the project is cost-beneficial; the larger the ratio, the greater the advantage of the project.

7. Calculate the Savings-to-Investment Ratio (SIR) between actual savings in terms of funds no longer required and the investment cost for Automated Information Systems, using discounted dollars.

8. Exemptions to the pre-investment analysis include environmental, hazardous waste reduction, or regulatory agency (state, local, or Federal) mandated requirements. This includes action directed by a higher DoD or Component authority that precludes a choice among alternatives, and DoD instruction or other directive that waives the requirement (e.g., equipment age or condition replacement criteria).

N. 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, databases, and software documentation.

1. 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 as either an expense or a capital investment, depending on whether it meets the criteria for a capital asset. Systems application software may be acquired through the purchase of a Commercial-Off-the-Shelf system; the development of new applications through either internal

development or contractual effort; or the modernization of existing software that significantly expands and/or enhances its existing capabilities.

2. Budget for software development and modernization by project. The full scope of a software development project may consist of costs incurred in: 1) Preliminary Design, 2) Software Development, and 3) Post Implementation. While all of these costs are part of the project, only the software development phase is capitalized.

a. The preliminary design phase consists of conceptual formulation of alternatives, evaluation and testing of alternatives, determining the existence of needed technology, and final selection of an alternative. This phase consists of all functional actions, including source selection for COTS and all actions prior to Systems Requirements Specification for internally developed software. Expense these costs as part of the DWCF operating budget and identify them on the Exhibit Fund-1a, "Details of Price and Program Changes - Costs."

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

c. Expense the post implementation/operational phase costs of data conversion and application maintenance, including functional training and documentation, operational testing, and evaluations conducted after technical acceptance of the software.

d. These rules are in effect for any system or severable module of a system budgeted for FY 2003 and beyond. These rules are consistent with Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards Number 10 issued October 9, 1998.

3. Exclude from the capital budget all costs incurred prior to Milestone 0, Concept Exploration and Definition. Expense costs such as basic research, study, exploratory development establishing feasibility and practicality of proposed solutions, rough order of magnitude estimates, etc. Also expense costs for technical software support and maintenance software support occurring after system installation.

4. Include those software development or acquisition efforts for the benefit of the activity in the DWCF capital budget submissions. 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 production costs; and 7) general and administrative costs (e.g., base operations support, higher headquarters, and depreciation for central design activity-owned assets).



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

6. Separately identify ADP equipment and ADP software in the capital budget.

7. Software development and modernization costs incurred by DWCF [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). Depreciate incremental deliveries of these projects if the cost of the delivery [is equal to or exceeds](#) \$250,000.

8. [In accordance with section 2222\(c\) of Title 10, U.S.C.](#) and Department of Defense policy, modernization and enhancement to a [business](#) system that costs more than \$1 million [over the Future Years Defense Program \(FYDP\)](#) must be approved by the Investment Review Board and the Defense Business Systems Management Committee [prior](#) to obligating funds.

O. Minor construction projects costing more than \$750,000 shall be funded within the DoD Component's Military Construction appropriation. Exceptions to this limitation are noted below in [090104.O.1](#).

1. Authority provided by [section 2805\(c\) by Title 10, U.S.C.](#) to use funds available for operation and maintenance for unspecified minor construction projects costing not more than \$750,000 is available for DWCF-funded unspecified minor construction. However, projects that have an estimated cost that is greater than or equal to \$250,000 that have not been documented in a corresponding budget exhibit (Exhibit Fund-9b, "Activity Capital Investment Summary") must be approved in writing by the Director, Revolving Funds, and separately identified in the Component's Annual Operating Budget and displayed as an adjustment on the Exhibit Fund-9c, "Capital Budget Execution."

2. In Title 10 U.S.C., section 2805(d), Congress authorized a DoD Laboratory Revitalization Program that [increases to \\$4,000,000](#) the upper ceiling for certain minor construction projects at DoD laboratories. The authority is not permanent, but is subject to periodic congressional extension. Laboratory Revitalization Program projects must be for the revitalization and recapitalization of Defense laboratories owned by the United States and under the jurisdiction of the Secretary of Defense or a Military Department. Fund activities designated to participate in the DoD Laboratory Revitalization Program must obtain prior OUSD (Comptroller) approval for all projects estimated to cost over [\\$250,000](#) so that those projects can be specifically identified in the capital program within the AOB [prior](#) to project execution.

3. Capital investment costs financed in the minor construction portion of the capital budget include project planning and design costs associated with minor construction projects. Planning and design costs are not included as part of the statutory threshold for minor construction projects and must be identified separately from individual projects in the Program/Budget Submission (Exhibit Fund-9c, “Capital Budget Execution”).

P. DoD Components may reprogram capital funds between DWCF activities, or categories or projects within a DWCF activity. There is no minimum or maximum limit on this type of reprogramming. Except as noted below, capital reprogramming requires the written approval of the Director, Revolving Funds, in the form of a signed AOB. The following approval levels and dollar threshold apply to changes to projects approved in the capital budget including reprogramming, substitutions, cancellations, and additions:

1. All current year adjustments for business systems for which the total projected costs exceed \$999,999 over the FYDP must be endorsed by the Defense Business Systems Management Committee (DBSMC) and approved by the Director, Revolving Funds, in the form of a signed AOB. Obtain certification from the approval authority as directed in the guidance and instructions displayed in the “system compliance” section of the DBSMC website ([http://www.dtic.mil/whs/directives/corres/pdf/500002\\_interim.pdf](http://www.dtic.mil/whs/directives/corres/pdf/500002_interim.pdf)) before submitting changes or adjustments for these projects to the Director, Revolving Funds. All other transfers between information technology capital projects (ADP Equipment and Software) that are greater than \$999,999 must be approved by the Director, Revolving Funds, in the form of a signed AOB.

2. Fund managers may approve transfers between the Non-ADP Equipment and Minor Construction categories or among their individual projects if the change is less than \$3,000,000. Components are required to notify the Director, Revolving Funds, promptly so that these changes may be documented in the activity’s AOB. All CIP transfers between DWCF activities within a DoD Component (e.g., supply to non-supply) must be approved by the Director, Revolving Funds, in the form of a signed AOB, before the transfer is executed.

3. Components must charge capital obligation adjustments 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 on September 30 of that fiscal year plus adjustments approved by the Director, Revolving Funds, to the prior year program. Fund managers may request approval to carry over authority for any unobligated capital projects before the end of the fiscal year.

4. Capital obligation authority may be adjusted for prior year within-scope increases provided that there is Contract Authority available to finance the increase. Before making such increases, the Component must propose equal offsetting reductions (deobligations) or current year capital authority to finance the prior year increase and obtain approval from the Director, Revolving Funds in the form of a signed AOB.

## 090105. Mobilization/Surge Costs and War Reserve Material

A. Mobilization capability costs include the costs to maintain a surge capacity; procure and maintain approved war reserve material levels; and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in Defense planning guidance or operational plans.

B. The DWCF activities should identify all costs related to maintaining a capacity to meet mobilization requirements. These costs are not considered normal operating costs and may be reimbursed by direct appropriations so that customer rates are not burdened by contingency requirements.

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

2. Unutilized and Underutilized Plant Capacity.

a. Unutilized Plant Capacity (UPC) represents costs associated with maintaining facilities to meet surge capacity needed for mobilization or war. The UPC is a mobilization requirement budgeted in and funded by Operation and Maintenance appropriation funds of the DoD Component responsible for the activity’s management. Do not include UPC costs in the DWCF rate structure. As a general rule, UPC funding includes the pro-rata facilities support costs for any month in which 1) mobilization facilities are not used or 2) facilities are used 20 percent or less of available work days.

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

c. Each non-supply DWCF activity should prepare a UPC Budget Exhibit (Fund-30). This exhibit documents total capacity, Unutilized Capacity Index, justification, and cost used in developing the request for UPC. All non-supply DWCF activities should complete the three capacity-index metrics found in Part I of the exhibit. Any non-supply activity requesting UPC funding will also complete the funded UPC line in Part I and the UPC justification in Part II of the exhibit.

3. Industrial Mobilization Costs. The Army established a category of costs that includes both UPC and underutilized facilities cost called “Industrial Mobilization Cost.” The Army will use the Exhibit Fund-30, “Under Utilized Plant Capacity” to justify their IMC costs.

4. Airlift Readiness Account (ARA). The United States Transportation Command (USTRANSCOM) must maintain sufficient airlift capability to respond to transportation requirements for a wide variety of mobilization conditions. This

requirement exists in both peacetime and contingency environments. To the extent customer revenue is insufficient to support the costs of maintaining this capability; the Air Force shall provide appropriated funds. The USTRANSCOM will record this funding as an order and revenue in its financial reports. The USTRANSCOM must submit the Fund-8, "Air Mobility Command Common User Services" exhibit to justify the ARA requirement.

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

#### 090106. Military Personnel

A. Components will use the civilian-equivalent rates provided by the OUSD C to price military labor at DWCF activities. The full cost of military personnel should not be included in the DWCF cost of operations or customer rates because the majority of military personnel at DWCF activities are there for reasons other than DWCF business requirements (e.g., mobilization, rotational training, and command opportunities). 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 average strength of military assigned to the DWCF business. The average strength for the budget year(s) will be calculated using the average fill rate for the 3 prior fiscal years. The fill rate is calculated by dividing actual average strength by the authorized strength for each grade. The budget amount will equal the average strength for each grade multiplied by the applicable civilian-equivalency rate. No adjustments will be made to the DWCF cost of operations to reflect the actual cost of military personnel employed by DWCF activities.

B. The amount expensed for military personnel by DWCF activities and the amount reimbursed to the appropriate military personnel appropriation will equal the amount budgeted. No adjustments will be made to the DWCF cost of operations to reflect the actual cost of military personnel employed by DWCF activities. Military Departments having military personnel assigned to other Components will provide to each Component the number of work years that should be included in the DWCF budget submission. The DWCF activities that augment their manpower requirements with National Guard or Reserve personnel, to include those participating in the Personnel Force Innovation (PFI) program, will reimburse the appropriate military personnel appropriation at the DWCF civilian-equivalency rates.

C. The civilian-equivalent costs are provided by the OUSD (Comptroller) and are calculated as follows: First, find the current General Schedule (Rest of U.S.) civilian pay rates, step 5 or Executive Service pay rates of the equivalent grade. Next, multiply the amount in the first step by the average civilian personnel fringe benefits factor applicable to the Military Services and Defense Agencies, excluding the amount for unfunded civilian retirement in the fringe benefits percentage factor. Civilian personnel fringe benefit rates and military composite rates are provided by the OUSD C. Finally, multiply the amount calculated in the previous step by any proposed civilian pay raises effective in future periods to arrive at total civilian costs.

D. See Volume 2A Budget Formulation and Presentation, [Chapter 1 General Information](#), paragraph 010218 of the [DoD FMR](#) for [active duty](#) military personnel pricing policy.

#### 090107. [Full Recovery of Costs and the Setting of Prices](#)

A. Managers of DWCF activities within each Component will set their prices based on full cost recovery, including all general and administrative support provided by others. Prices are established through the budget process and remain fixed during the year of execution (exceptions are listed in the [DoD FMR](#), Volume 11b Reimbursable Operations Policy – Working Capital Funds, Chapter 15 Supply Management Activities, paragraph 150305 Authorized Changes of Standard Prices). This stabilized price 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 DWCF resources.

B. Except in unusual circumstances, prices for the budget year will be set to break even over the long run at [the activity level](#). This means that prices will be set to achieve an AOR of zero in the budget year, [provided that cash resources are available to support AOR returns](#). In budget execution, [activities](#) will incur either a positive or negative operating result. Accordingly, activities will increase their budget year prices to make up actual or projected losses of [budgetary resources](#) or reduce their budget year prices to return actual [excess resources](#) or projected [budgetary](#) gains to customers.

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

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

1. Fund Liquidity: Component managers are [encouraged](#) to maintain the lowest positive cash balance sufficient for operational needs and capital investment. However, several factors could cause the activities to operate [significantly above the](#) target

requirement. To prevent the buildup of excess cash balances, or ensure fund solvency, the Director, Revolving Funds, or Component managers with the written permission of the Director, Revolving Funds, may direct out-of-cycle rate adjustments at any time during the fiscal year.

2. Depot Maintenance Additional Requirements: Unplanned depot losses recouped in subsequent years may be financed with prior year funds, provided all other criteria associated with prior year upward obligations are met.

3. Contingency or Emergency Operations: Fund managers may waive DWCF pricing and financing requirements to facilitate Department operations during times of war or other national emergencies. The DWCF activity must notify the Director, Revolving Funds, in writing within 30 days of this action.

4. Impact of Foreign Currency Exchange Rates: A DWCF activity operating overseas may experience significant operating losses or gains due to changes in foreign currency exchange rates.

a. While these operating losses and gains are normally recovered or returned through stabilized rate adjustments in budget years, fund managers may propose out-of-cycle rate adjustments to the Director, Revolving Funds, to address such losses and gains in execution. In calculating any gain or loss from foreign currency fluctuations, the DWCF must use the foreign currency exchange rates published as part of the Department's budget justification materials submitted to Congress in support of the President's budget request and follow applicable procedures in the DoD FMR, Volume 6A, Chapter 7.

b. The DWCF activities are not eligible to participate directly in the Foreign Currency Fluctuations, Defense (FCF,D) (97-X-0803) and the Foreign Currency Fluctuations – Construction, Defense (FCF-C,D) (97-X-0801) accounts.

E. In addition to spreading contract costs when developing rates for all customers, the DWCF activities may incur and recover costs for contracts awarded specifically to fill the requirements of one customer by charging that customer an amount equivalent to the DWCF activity's expense in funding, awarding, and administering the contract.

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

G. Unless approved in writing by the Director, Revolving Funds, the prices set for all activity products, goods, or services will match the rate changes approved during the budget review and documented in a memorandum signed by the USD (Comptroller), or designated representative.

H. Reimbursement procedures for contingency operations and humanitarian efforts are as follows:

1. Users shall pay for the goods and services provided by all DWCF activities, including deployment or other emergency response for military or humanitarian assistance.

2. Customers of the DWCF shall reimburse DWCF activities in a timely manner (usually within 30 days). Except in contingency operations or national emergencies, DWCF activities should not provide goods or services without a properly executed funding document (see [Volume 2B, Chapter 11 Offsetting Receipts of the DoD FMR](#)). The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, the unit, major command, or Military Department level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission, such as transportation of military personnel or equipment by USTRANSCOM. The Military Department that controls the equipment or personnel is responsible for payment of costs incurred to accomplish the mission.

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

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

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

**I. [Base Realignment and Closure \(BRAC\) cost reimbursement policies are as follows:](#)**

1. **BRAC-Related Costs.** Costs incurred in implementing the recommendations of the 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. The DWCF activities may incur BRAC expenses prior to receiving an allocation of BRAC funding; however, all costs properly charged against the BRAC account must be reimbursed with BRAC funds.

The DWCF activities may not expend funds prior to complying with the notification requirements imposed by law with respect to the obligation of BRAC funds. The BRAC account must reimburse all costs incurred by DWCF activities to carry out BRAC prior to the end of the fiscal year in which costs were incurred. Prior year, current year, or budget year operating losses in DWCF are not to be budgeted in the base closure accounts. Costs attributable to base closure actions at DWCF activities to be budgeted in BRAC may include:

- a. BRAC directed reductions-in-force, separation incentives, plant closures, plant layaway or custody costs, or other BRAC-related expenses, such as all costs not associated with a valid work order during the year of closure
- b. Environmental restoration and mitigation, to include reducing, removing, and recycling hazardous waste, and removing unsafe building debris
- c. Planning, to include conducting such advance planning and design as may be required to transfer from an activity being closed to another military installation
- d. Outplacement assistance in relocating, training, or providing other necessary assistance to civilian employees employed by the Department at installations being closed
- e. Community programs, to include 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. The 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, the Component responsible for the activity incurring the loss will finance, as a pass through from O&M appropriations to the DWCF, all overhead not included in rates supported by ongoing work or prior year losses to be recovered in the budget year. 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.

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



costs against the DWCF, provided the DWCF is reimbursed with BRAC or O&M funds by the end of the fiscal year in which the costs are incurred.

J. Funding of Civilian Voluntary Separation Incentive Program **will be financed and included in stabilized rates** for civilian separation incentive requirements of assigned employees unless they must be offered as a result of directed BRAC action, in which case the appropriate BRAC account will fund the civilian separation incentive.

K. Any DWCF activities that use any of the services as listed in Exhibit Fund-22, "Summary of Base Support" must reimburse host activities in accordance with DoDI 4000.19 (Inter-service and Intra-governmental Support) to the extent that the specified support for the DWCF activity increases the host activity's direct costs. Costs for DWCF mission products and services (e.g., depot supply, depot maintenance, facility engineering services, information processing, communications, and software development) shall be based on the approved stabilized rate. Other support incidental to the DWCF activity's primary mission or purpose shall be budgeted based on direct costs measurable and directly attributable to the DWCF activity (e.g., incremental direct cost). **Only** the incremental direct cost attributable to the DWCF activity shall be chargeable to the DWCF activity. **Overhead 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 on Exhibit Fund-22, "Summary of Base Support" in the fall budget submission.

L. First line supervision is that level immediately over non-supervisory workers. For all DWCF activities, 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 **production** cost of the cost center supervised. Crew chiefs, snappers, team leaders, and other subordinate job leaders are not considered first line supervisors. The DoD FMR, Volume 11B, Chapter 13 Cost Accounting Requirements for Depot Maintenance, paragraph K contains additional information related to charging labor costs.

M. Management Headquarters Costs **for DWCF activities may be allocated using the following guidance:**

1. A management headquarters is a discrete organization or part of an organization that has authority over the management of the DWCF activity. The 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 the DWCF activities.

2. Costs for discrete DWCF management headquarters organizations and parts of organizations that perform direct DWCF management headquarters functions can be financed directly in the DWCF or reimbursed by the DWCF activity (whichever is more practical). Only costs that exceed \$1 million or 1 percent of the total activity costs should be reimbursed. In addition, Components may allocate significant costs for common support functions, such as counsel or personnel services, at DWCF management headquarters to other users based on workload percentages in those functions.

N. **Dual-Funded Organizations** are organizations that are funded (including reimbursable funding) by both the DWCF and other appropriations or accounts.

1. **Functions.** In those instances where a non-management headquarters function is funded with a combination of DWCF and appropriated funds, the function initially will be funded in its entirety by either the DWCF or appropriated funds, based on the **preponderance** of definable units of measure for the function (e.g., workload, productive hours, outputs, or ultimate use).

a. 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, **based on the unit of measure that was used to determine which organization or funding source would provide initial funding**; and the amount of reimbursement shall be based on the relative portion of that unit of measure attributable to each part of the organization or funding source involved. If the part of an organization that is within the DWCF accounts for more than 50 percent (e.g., 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, the remainder of the costs (e.g., 40 percent).

b. 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, Interservice and Intragovernmental Support.

2. **Capital Investments.** When a capital asset purchased by a DWCF activity is also used by the part of the organization financed by appropriated funds, the Fund activity will capitalize the capital asset and bill the appropriated fund customer for the use of the capital asset. Such billings will use a stabilized rate that recoups **both** depreciation and operating costs. When a capital asset purchased by any part of the organization financed by appropriated funds 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 Procedures for DWCF activities.**

1. The DWCF activities must recognize revenue and associated costs in the same accounting period. 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 (i.e., overhaul, repair, manufacture, construction, modification, **supply transactions**, etc.); and (2) service type orders that provide a service over a specified period of time. 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**. 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;

however, non-supply DWCF activities must use the “Percentage of Completion Method” for revenue recognition. The amount of revenue recognized cannot exceed the amount specified in the order.

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

3. The DoD FMR, Volume 11B, Chapter 11 Reimbursements and Revenue Recognition, provides specific revenue recognition guidance by DWCF activity.

**P. Customer Workload Changes.**

1. When a work order or project is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs, the DWCF activity shall charge the customer for the **direct and indirect production costs incurred**, plus the applied overhead plus costs associated with the cancellation or reduction.

2. The DoD FMR, Volume 11B, Chapter 11 Reimbursements and Revenue Recognition, paragraph 110102, provides specific guidance for the types of directly associated cancellation or reduction costs that can be charged to customers.

**Q.** Write-offs of extraordinary losses, **that do not involve cash losses or recovery of outlays** and chargeable against Accumulated Operating Results in accordance with accounting policies, shall not be recovered through increases in customer rates (e.g., 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; or losses associated with systematic inventory reductions by disposal of assets associated with force drawdowns). **Only extraordinary write-offs that require a cash resource will be separately identified in the Component’s budget submission using the Fund-14, “Revenue and Expenses” exhibit.** Write offs of this nature are limited to valuation discrepancies based on the accounting value of assets. For example, if a machine breaks in year 3 of a 5-year expected life, the book value may be zero. However, cash recovery is still required for 2 more years and a new cash outlay is required to replace the asset. Components must receive written approval from the Director, Revolving Funds, before requesting the accounting adjustment from DFAS **on the Accounting Report (AR) 1307.**

**R.** Activities may use below-the-line adjustments **to the Net Operating Result** to adjust for cash transfers that are not directly related to operational performance. This adjustment will be used when the cash position does not support returning or collecting **AOR**. Components must receive written approval from the Director, Revolving Funds, **before** requesting the accounting adjustment from DFAS **for minimum cash requirement-related issues.**

**S.** Funding policies reflecting relationships with, and requirements of, other appropriations are provided in Volume 11B, Chapter 1 Defense Working Capital Funds General

Policies and Procedures, Section 0101 of the [DoD FMR](#). Policies regarding costs billed for legacy system requirements are provided in the [DoD FMR](#), Volume 11B, Chapter 1 Defense Working Capital Funds General Policies and Procedures, section 010403.

090108. [Rate Setting for DWCF Activities](#)

A. In accordance with paragraph 090107 of this Volume, stabilized rates reflecting full cost will be set during the budget process for all individual DWCF activities. The DWCF uses three methods for rate setting purposes based on the nature of an activity.

1. [Percentage Markup on Cost](#). A cost recovery percentage is applied to the purchase or repair cost of secondary supply items to recover overhead costs and other pricing adjustments. This method is typically used for supply management DWCF activities.

2. [Direct Labor Hour \(DLH\)](#). A specific dollar value, including all direct costs, overhead, and other pricing adjustments, is charged per DLH associated with the completion of a customer order. This method is typically used for industrial DWCF activities (i.e., depot maintenance, ordnance, and research and development).

3. [Specific Unit of Output](#). The DWCF activities that provide services via numerous outputs that do not have a common measure for calculation will establish separate rates for each output. When multiplied by projected customer workload for each output, the rates will produce revenue that approximates, to the extent possible, recovery of the full cost, including approved adjustments, of providing the specific outputs (e.g., transportation, finance and accounting, information systems, and base support). This includes direct systems reimbursement.

B. [Definitions and Procedures](#)

1. [Stabilized Price](#). Under the stabilized price standardized cost recovery method, customers are charged for products and services provided by a DWCF activity. Activities establish stabilized prices for the budget year that are adjusted and approved during the budget review process. The stabilized rate is determined by adjusting [anticipated workload and projected overhead costs](#) for the budget year for both inter-Fund transactions (i.e., adjustments to reflect changes in the costs of purchases between activities within the Fund) and the impact of prior year gains or losses as reflected by the AOR. DWCF activities will charge this annual stabilized rate for all new customer orders received and accepted during that specific fiscal year, regardless of when the work is actually executed and billed.

2. [Stabilized Price Exceptions](#). See paragraph 090109 for guidance applicable to the sale of goods and services to public-private partnerships by DoD depot maintenance activities. In the Supply activities, customers are charged the price in effect when the item is dropped from inventory.

3. [OP-32 Rate Change](#). The annually published rate change for DWCF activities, as provided in a memorandum signed by the USD (Comptroller), is the

percentage change of prices between fiscal years. As an example, the budget year rate for depot maintenance is determined by dividing the approved DLH rate proposed for the budget year by the stabilized DLH rate in effect for the current execution year. That value, expressed as a percentage (i.e., plus or minus from a base of 100 percent) is the composite price change rate customers will use in their appropriated funds submissions.

C. Budgeted Rates. The OUSD (Comptroller) will review and approve all final rates and prices developed for the President's budget submission during the Program/Budget Review. The DoD Components will develop the prices charged to customers to recoup all costs associated with the specific DWCF activity operating and capital budgets including all labor and non-labor, direct, indirect production costs and general and administrative overhead costs. Components will add a positive or negative cash factor, if needed, to maintain cash solvency or return cash balances. During budget formulation, Components may propose, on budget exhibits, more detailed rates that break out overall composite rates by activity or product line within a DWCF activity. If approved, the Components will use these rates in final price development and execution. Further, the Components may devise rate allocations for internal use that must reconcile to the approved activity composite rate. Components will make corresponding adjustments in appropriated customer account budget requests to ensure the customer and DWCF budgets are in balance.

D. Alternative Rate Development. Components may propose methods other than the standardized rates for recovering the cost of operations so long as they are mathematically equivalent to the standardized rate. Any alternative pricing methods must be fully documented and justified in the DoD Components' Program/Budget Review. Any method (such as percentage of sales instead of markup on cost) must demonstrate recovery of all operating costs, provide a comparison of the current method to the method proposed, show the impact to customer funding requirements, and provide a timeline for implementation. Any change in the presentation of standardized rates for budget purposes must be approved in advance by the Director, Revolving Funds, and documented in the appropriate decision document.

E. Budget Formulation Rates and Prices. All DWCF activities will establish rates using the following multiple step process:

1. Each DoD Component must carefully review all projected costs for its projected operations for the fiscal year, and propose the most cost-efficient operation possible.
2. Customer requirements must be projected to include all anticipated workload 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. Prior year execution shall also be factored into the projection of anticipated customer orders and overhead costs and significant deviations from prior year workload must be fully explained in both the activity's and the customer's budget justification materials.

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

4. Components will propose costs, program levels, and rate changes by DWCF [activity](#) in their Program/Budget estimate submissions. Components may propose exclusion of customer unique, non-labor direct costs from the stabilized rates, and charge these costs on an actual cost reimbursable basis. Components must show the impact the change in rates structure would have on overall stabilized rates. [In other words, all costs must be accounted for and reconciled on the corresponding budget exhibit. Final rate and price adjustments will be documented in a memorandum signed by the USD \(Comptroller\), or designated representative, at the completion of the budget review.](#)

5. Final approved costs, program levels, and rate changes will be established by [decision](#) documents, after adjustments required to balance changes to customer funding with anticipated Fund costs, inter-Fund sales and transactions, and adjustments for NOR to bring the [AOR](#) to zero for the budget year for each DWCF activity.

F. [Financing of Extraordinary Depreciation](#). Alternatives exist for financing sunk costs when activities terminate capital investments before a project is completed. These costs may be funded through one-time [capital surcharges](#) to operating costs or through [the normal budgeted depreciation rates previously established](#). If charged to operating costs [through a capital surcharge](#) and depending on the size of the charge, the loss may be recovered through rates over a 2-year period. If a usable product is produced, even though it is less than the planned product, costs may be reasonably assigned to that product and those costs may be appropriately recovered through depreciation.

#### 090109. [Public-Private Partnerships at Depot Maintenance Activities](#)

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

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

1. May not be used to compete for non-defense related work.
2. Does not apply when otherwise precluded by public law.

3. Does not apply to products or services produced under work-share arrangements in which a DoD sponsor assigns work and separately funds the DoD depot maintenance activity and the private sector entity.

4. May be used for sales to private sector entities only when the transaction is part of an arrangement that is officially recognized as a depot maintenance public-private partnership.

#### C. Sales Prices

1. In order to minimize potential DoD operating losses or gains, sales prices to private sector entities in depot maintenance public-private partnership relationships may be tailored to the most recent actual and projected costs, rather than the approved stabilized billing rates charged to DoD customers (10 U.S.C. § 2474).

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

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

#### D. Fixed Pricing

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

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

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

090110. [Military Clothing Items and Individual Equipment](#)

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

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

\*0902 BUDGET JUSTIFICATION PRESENTATION

090201. [Purpose](#)

This section provides guidance for preparation and submission of [budget justification material](#) and execution review estimates for the DWCF activities.

090202. [Preparation of Materials](#)

General guidance with regard to format and preparation of material is presented in Volume 2A, Chapter 1 General Information of the [DoD FMR](#). Volume 2B, Chapter 9 Defense Working Capital Fund Budget Justification Analysis of the [DoD FMR](#) provides additional specific guidance with regard to the back-up material required for the [DWCF](#) and other unit cost budget areas.

090203. [References](#)

Volume 2A, Chapter 1 General Information of the [DoD FMR](#) provides funding policies to include those that impact other appropriations and accounts. Volume 2A, Chapter 2 Military Personnel Appropriations of the [DoD FMR](#) provides guidance related to military personnel costs. Volume 2A, Chapter 3 Operation and Maintenance Appropriations of the [DoD FMR](#) provides guidance related to Operation and Maintenance costs, and Volume 2B, Chapter 8 Facilities Sustainment and Restoration/Modernization provides guidance related to Real Property Maintenance and Minor Construction.



090204. General

A. Each DoD Component will submit operating and CIP budget justification material to the OUSD (Comptroller), Revolving Funds Directorate, in preparation for submitting the President's budget request to the Congress following a review and approval by the OUSD (Comptroller) and the Office of Management and Budget. Each Defense Agency will prepare and submit their portion of the Defense-wide volume material to OUSD (Comptroller), Revolving Funds Directorate, for review and approval prior to submission to DLA for incorporation into the Defense-wide justification book. The DLA may require support from the submitting organizations to assemble the final justification book containing the Defense-wide DWCF activities. The DLA will supervise printing and distribution of the Defense-wide justification book for the President's budget.

1. The DWCF Program Budget/Review focuses on an integrated set of budgetary schedules for evaluating progress towards meeting cost and productivity targets. Unit cost goals and customer prices are set for each DWCF Activity for the budget year to ensure resources are available to finance all costs.

2. The Budget Call letter may request updates for selected schedules that have not yet been documented in this regulation.

3. The documentation supporting the President's budget should be consistent with approved costs, work load and productivity assumptions.

4. The DWCF justification books submitted to Congress will be unclassified, in one volume organized into three sections: Component Overview, Operating Budget, and Capital Budget. All congressional budget material will be submitted electronically and posted on the respective Service's unclassified web site.

B. The following table lists all required budget justification exhibits.

1. The "Exhibit Requirements" column lists the universe of budget exhibits for DWCF activities.

2. The "WCF Activity" column identifies, for each exhibit, which activities are required to submit the exhibit. Activities must provide the exhibits as follows: "All" indicates all DWCF activities; "S" indicates Supply activities; "NS" indicates non-Supply activities; "I" indicates industrial activities; and "Depots" indicates depot maintenance activities.

3. The remaining three columns are marked "Y" or "N" to indicate that submission of the exhibit is required ("Y") or not required ("N"), respectively, to support the Program/Budget Review ("Budget Review"), for the Revolving Funds Directorate's internal use (the exhibit will not be published) to support the President's budget ("Backup to PB") request, and for publication as part of the congressional justification materials for the President's budget request ("President's Budget"). The single exception is the Fund-28 Execution Performance Analysis, which must be submitted for budget execution reviews only.

Exhibit Requirements		WCF Activity	Budget Review	Backup to PB	President's Budget
Component Narrative		All	N	N	Y
WCF Activity Narrative		All	Y	N	Y
SM-1	Supply Management Summary by Division	S	Y	N	Y
SM-3a	Requirements to Budget	S	Y	N	N
SM-3b	Weapon System Requirements	S	Y	N	Y
SM-4	Inventory Status	S	Y	N	Y
SM-5a	Markup on Material Cost	S	Y	Y	N
SM-5b	OP-32 Price Change	S	Y	Y	N
SM-6	War Reserve Material	S	Y	N	Y
SM-16	Unit Cost Summary	S	Y	Y	N
Fund-1	Summary of Price, Program and Other Changes	All	Y	Y	N
Fund-1a	Details of Price, Program and Other changes (OP-32)	All	Y	N	N
Fund-2	Changes in Cost of Operations	NS	Y	N	Y
Fund-3	Labor Cost Breakdown	NS	Y	N	N
Fund-5	Total Cost Per Output Summary	NS	Y	Y	N
Fund-6	Depot Maintenance 6% Capital Investment Plan	Depots	Y	N	Y
Fund-7	Customer Rate Computations	I	Y	N	N
Fund-8	Air Mobility Command (USTRANSCOM)		Y	N	N
Fund-9a	Capital Investment Summary	All	Y	N	Y
Fund-9b	Capital Investment Justification	All	Y	N	Y
Fund-9c	Capital Budget Execution	All	Y	N	Y
Fund-11	Source of Revenue	All	Y	N	Y
Fund-11a	Allowable Carryover Summary	I	Y	N	Y
Fund-11b	Carryover Outlay Calculation	I	Y	Y	N
Fund-13	Cash Management Plan <sup>1</sup>	All	Y	Y	N
Fund-14	Revenue and Costs	All	Y	N	Y
Fund-15	Fuel Data <sup>3</sup>	S	Y	N	Y
Fund-16	Material Inventory Data	I	Y	N	Y
Fund-19	Military Personnel by End Strength	All	Y	N	N
Fund-22	Summary of Base Support	All	Y	N	N
Fund-24	Summary of Personnel Data	NS	Y	N	N
Fund-26	Revenue and Expense Phasing Plan <sup>1</sup>	All	Y	Y	N
Fund-28	Execution Performance Analysis <sup>1</sup>	All	Budget Execution Reviews Only		
Fund-30	Unutilized/Underutilized Plant Capacity	I	Y	Y	N
OP-8	Civilian Personnel Costs <sup>3</sup>	All	Y	Y	N
OP-32	Operation & Maintenance <sup>3</sup>	All	Y	Y	N
PB-15	Advisory and Assistance Services <sup>3</sup>	All	Y	Y	N
PB-22	Headquarters Costs <sup>3</sup>	All	Y	Y	N
PB-54	Civilian Personnel Hiring Plan <sup>3</sup>	All	Y	Y	N

<sup>1</sup> OUSD(C) RF electronic format required

<sup>2</sup> USTRANSCOM must submit separate Fund-15 exhibits for its Commercial and Military airlift augmentation efforts

<sup>3</sup> Formats and Instructions are in Volume 2A Chapter 3 for the OP-8 exhibits and Volume 2B Chapter 19 for the PB-15, PB-22 and PB-54 exhibits. To be included with the DoD Component's appropriated budget justification materials.

C. Component Narrative. A component narrative is required for the President's budget submission to the Congress. Each DoD Component will provide a Summary by Component in table form consisting of cash and net outlays; revenue, expenses, and operating results; civilian full-time equivalents and military end strength; unit costs, rates, and other key indicators. In addition, each Component will provide a summary table for each of its DWCF activities. Discuss any planned changes in DWCF Activity make up, location, or product lines. Provide short explanatory bullets where significant changes occur.

D. WCF Activity Narrative. For each DWCF Activity, the DoD Component will submit a narrative analysis that, as a minimum, addresses the following areas:

1. A general description of the DWCF activity to include names and locations of subordinate commands, its outputs and customers, and performance and quality metrics. Discuss any planned changes in the DWCF activity make up, location, or product lines. Display cash and net outlays, revenue and expenses, operating results, civilian full-time equivalents and military end strength, unit costs and rates and other key indicators in tabular form. Provide short explanatory bullets where significant changes occur.

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

E. Copies. Numbers of copies of the required materials to be submitted with the annual budget estimates are identified in Volume 2A, Chapter 1 Budget Formulation and Presentation of the DoD FMR. In addition, for the Budget Review, an electronic copy of the justification material for each DWCF Activity will be provided to the respective Revolving Fund analyst and an electronic copy will be made available to the OUSD (C) Program and Financial Control Directorate on the SIPRNET. The OUSD (C) will notify Fund Managers if additional copies are required. The Budget Call Letter will provide any additional submission instructions, such as posting of the electronic copy to the internet.

F. Classification. The DWCF justification books prepared by the Components are to be unclassified. Submit any classified exhibits under separate cover.

G. Formats. Paper copies of justification material will be submitted on 8-1/2 x 11-inch paper. Variations in format to facilitate printing are permissible. Additionally, modifications may be made to exhibit formats with the approval of the respective Revolving Fund analyst to eliminate redundant information or provide further clarification.

H. Database Requirements. Consistent with the guidance contained in Volume 2A, Chapter 1 General Information paragraph 010506 of the DoD FMR, the DWCF budget estimates for financing and civilians will be entered into the Comptroller Information System (CIS). The CIS is typically loaded in August before the review of the justification material. The CIS entries are in obligations, as opposed to expenses.

1. The DWCF Operating Budgets will be entered into the CIS as new obligations. However, certain budget exhibits may reflect expense rates where applicable.

2. The DWCF Capital Budgets will be entered into the CIS as the amount of contract authority requested in that fiscal year. This amount should be equal to the program totals displayed on the Fund-9c "Capital Budget Execution" exhibit. The CIP prior year carryover request amounts are not entered into CIS for the current year (CY).

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

4. Changes to CIS data submitted by the DoD Components will be recorded in a decision document or technical adjustment. Technical adjustments may be used when a DoD Component requests minor changes due to new information or correction of errors during the Program/Budget review. The changes to the Program/Budget reflected in the final decision document will be expressed as obligations, FTEs for civilian personnel, and end strength for military personnel, and adjusting entries will be generated. Final rate and price adjustments will be documented in a memorandum signed by the Under Secretary of Defense (Comptroller), or designated representative, at the completion of the Program/Budget review.

I. Special Schedules - For the Supply Management activities, the narrative must include a section on workload 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 (#), and supply material availability (%).

090205. DWCF Application of Commonly Used Financial Management Terms

A. Commitment. A firm administrative reservation of funds, based on 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. The DWCF activities are not limited to the amount of commitments that can be incurred in the course of operations (unlike other DoD appropriations). Annual Operating Budgets (AOBs) provide legal and administrative restrictions only on the amount of contract authority that may be obligated in a given fiscal year.

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

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

D. Outlays. Disbursements issued from the U.S. Treasury 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.

090206. [Supply Management DWCF Activity Definitions](#)

A. This section provides standard definitions to Supply Management terminology associated with the development of budget justification material.

B. [Definition of Terms Used in Supply Management DWCF Activities](#)

1. [Acquisition Leadtime](#). 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 Leadtime is composed of two elements, production leadtime and administrative leadtime.

2. [Administrative Leadtime](#). That portion of the [Acquisition Leadtime](#) that begins with the identification of the need to buy and the contract award. [The time between the initiation of paperwork to a signed contract](#).

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

4. [Beginning of Period \(BOP, BP\)](#). The start of a specified fiscal year normally on October 1 used to determine the opening "snapshot" status of resources. [Typically, the EOP from the previous fiscal year becomes the BOP of the current FY adjusted for price changes](#).

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

6. [Capitalization](#). The process whereby the Fund assumes management responsibility and ownership [of inventories](#) without reimbursing other DoD appropriations or funds.

7. [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. [This is a budget stratification category and is not the same as "War Reserve Materiel," which is held for immediate use of military deployments](#).

8. [Cost of Goods \(Materiel\) Sold \(COGS\)](#). The COGS is the [expensed](#) value of the items sold at the standard or exchange price, respectively. The [COGS](#) cannot be recorded until a sale occurs even though the purchase and cash outlay occurred in a previous fiscal year. The COGS is a method of inventory valuation that may not be directly related to actual cash required to purchase inventory for the continuity of operations. A Materiel Cost Adjustment (MCA) is allowed as a cost recovery element (which may or may not be related

to normal inflation) to ensure that budgetary resources are available to cover the difference in historic costs (COGS) and current costs.

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

10. Decapitalization. The transfer of DWCF inventories to other appropriations or funds without reimbursement. Transfers of inventory between DWCF DoD Components are not considered de-capitalizations. Gains and losses of cash, relative to continuing operations at the DWCF activity level, should be taken into consideration to establish an acceptable reimbursement process based on validated undelivered orders (dues in).

11. Demand (Customer Order). Demand is an indication of a requirement (i.e., 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.

12. 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. The replenishment and growth of economic retention stock may not be financially sound (even though a lower cost may be achieved) when the additional resources could be used to reduce potential inventory shortages in other commodities that have higher reoccurring demands.

13. Exchange Price (EP). In a system that supports exchange pricing, this is the price charged to customers exchanging a Depot Level Repairable part that needs repair for a serviceable one (new or repaired). Equates to the latest repair price plus wash out costs (condemnations) per item plus pricing elements necessary to recover other operating costs. (Note: If no carcass is returned, the customer is charged the full standard price.)

14. Expendable Supplies and Material. Supplies, sometimes referred to as consumable supplies and material, that are consumed (e.g., paint, fuel, cleaning, preserving materials, surgical dressings, drugs, and medicines) or lose their identity in use.

15. Initial Spare and Repair Parts. Those spares and repair parts introduced through the provisioning process to establish inventory levels prior to reoccurring demands for that item. These inventory levels are typically funded by other DoD appropriations.

In some cases, as approved by the Director, Revolving Funds, a cost recovery element may be added to the pricing structure to cover these requirements.

16. 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.

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

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

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

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

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

e. Retail Inventory. Supplies/material held at a second point of sale below the wholesale level (e.g., management of DLA inventory purchases within a specific Military Department).

18. Inventory Cost Categories

a. Operating Costs. All costs not associated with the purchase or repair of materiel that must be incurred in order for the DoD Components to manage a supply DWCF Activity. All materiel-related costs should be the basis for cost of goods sold.

b. War Reserves. Direct appropriation funding is required to procure items for war reserve stocks. These materials are required to support approved force mobilization objectives. The approved force mobilization objective is the quantity required, in addition to peacetime assets normally available on any given date, to equip and support the approved force structure in accordance with current Defense Guidance.

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

d. Moving Average Cost: A historical cost method of valuing inventory. Each time a new quantity is purchased, the average value of all items on hand is recalculated. This value is the basis for accounting purposes and the COGS value on the Fund-14 "Revenue and Costs." For budget purposes, inflation and a Materiel Cost Adjustment (MCA) may have to be applied as a cost recovery element to ensure receipt of sufficient budgetary resources to support the cash outlays required for inventory purchases.

e. Replenishment Cost. The current price of an item from a vendor that will result in a cash outlay resulting from an obligation in the current fiscal year.

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

(1) 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.

(2) Items that are procured on a life-of-type basis or which are "bought out" at the termination of a production program.

(3) 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.

19. Inventory on Order. The quantities of material required to sustain operations in the interval between requisitions and the arrival of successive shipments; the amount of inventory required to satisfy current demands when leadtimes are taken into account. These quantities should be based on the established replenishment period (i.e., monthly, quarterly, etc.). This is also referred to as the "Pipeline," "Undelivered Orders," or "Due ins from Procurement and Repair."

20. Other War Reserve Material Requirements. The total war reserve material requirement less the sum of the pre-positioned war reserve requirements. These are also known as non-prepositioned requirements.

21. 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.

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

23. Materiel Cost Adjustment (MCA). The amount of price growth realized from suppliers above the moving average cost (MAC), used on the SM-5b "OP-32 Price Change."  $MAC + Inflation + MCA = Replenishment\ Costs$ , This amount is typically above the standard rate of inflation. Standard inflation should be accounted for in the "Materiel Inflation Adjustment" recovery element and not double counted in the MCA. In some cases, normal inflation may be the only recovery element required. For example, if a new part has been upgraded by the manufacturer, the price may increase by 10 percent. In this case, 2 percent may be "normal inflation" and 8 percent can be attributable to the MCA.

24. 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.

25. Provisioning Item. Spares and repair parts required as both demand and non-demand-based levels in the supply system to support new fielding of end items. Typically, these are new inventory requirements that require other DoD appropriations to establish the supply chain. In some cases, upon approval by the Director, Revolving Funds, customers may be charged for the establishment of new inventory as a recovery element.

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

27. Reclassification. The logistics term referring to the transfer of assets between inventory strata (e.g., from Economic Retention to Contingency), used on the SM-4 "Inventory Status."

28. Repair Cycle Level. The quantity of reparable 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.

29. Reparable 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.

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

31. Requisitioning Objective (also known as the “Authorized Acquisition 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.

32. 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.

33. Standard Price. The price that customers are charged for DoD Inventory Control Point (ICP)-managed items (excluding subsistence). The standard price remains constant (stabilized price) throughout a fiscal year except for the correction of significant errors. The standard price is computed based on various factors, including the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence and maintenance; depreciation; and supply operations. (Note: See Exchange Price for prices of Depot Level Repairables in systems that support exchange prices.)

34. 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.

35. 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.

36. Unfunded Requirement for Spares. The difference between the spare and/or repair parts requirement computed in accordance with DoD Policy (e.g., DoDI 4140.01 DoD Supply Chain Materiel Management Policy) and the amount of that requirement that is funded.

37. Unobligated Commitments. Amount of commitments incurred this fiscal year to date that have not resulted in obligation at the end of the report period. Unobligated commitments do not reduce Obligation Authority issued on AOBs.

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

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

090207. Non-Supply Definitions

A. Definitions Used in Non-Supply Activities

1. Maintenance Depot. Industrial DWCF facilities whose primary missions are to overhaul, manufacture, and re-manufacture weapon systems, ordnance, or other forms of equipment. These activities include Army and Marine Corps Maintenance Depots, Ordnance Depots, Arsenal, Navy Fleet Readiness Centers, and Air Force Aviation Depots.

2. Direct Labor Hour Rate. The stabilized rate method that assigns revenue per direct labor hour. The direct labor hour rate is computed by dividing the sum of all direct and indirect production labor, non-labor, and material, and general and administrative expenses, adjusted for direct reimbursements, NOR, and Capital Investment Program (CIP) or Cash surcharges, by the total number of direct labor hours (or other outputs) anticipated to be accomplished during the fiscal year.

3. Direct Labor Hour (DLH). The DLHs, sometimes referred to as Direct Product Standard Hours, are the hours required to perform the direct work on a product, or to perform a billable service for customers. The DLHs 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. The DLHs do not include the support work or man-hours identified as either indirect production (such as supervisory) or general and administrative in nature. The DLHs are estimated for budget purposes by product or service, based on industrial or management engineering standards developed using time, method, and motion studies, historical usage averages, or professional estimating and evaluation (E&E) techniques.

4. Fixed Price Catalogs. Depot Maintenance activities may maintain a catalog of products and services (major end items, componentry, depot level repairable, modification kits, etc.) with their associated rework, repair, overhaul, installation, etc., based on the Standard Depot Level Maintenance (SDLM) or Planned Depot Maintenance (PDM) work package 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 databases accessible to customers.

5. Total Cost of Goods Sold. The total expenses incurred in the operating budget of the activity associated with the revenue planned to be recognized for the budgeted fiscal year.

6. Carryover. The dollar value of work that has been ordered and funded (obligated) by customers, typically using other DoD appropriations, but not yet completed by DWCF activities (i.e., Depot Maintenance, Industrial Operations, and Research &

Development activities) at the end of the fiscal year. Carryover consists of the unfinished portion of work accepted but not yet completed.

B. Clarification of Rate Estimation. During the budget review process, each non-supply DWCF activity will use proposed new customer orders for each budget year to establish rates that will remain stabilized through the execution year. Accurate customer order projections are essential in determining the annual increase or decrease in rates.

1. Industrial activities will identify total DLHs required to accomplish the budget year's work program. 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. All DLHs should be identified in the budget, even though some workload may be direct reimbursable rather than rate based.

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

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

4. Workload mix (outputs), availabilities, and production schedules must be assessed, along with any other factors that may impact program outputs such as policy changes, productivity initiatives, planned workload competitions, plant capacity, and other factors. Based on these factors, the work counts associated with each major workload category (output or product) 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."

#### \*0903 DWCF ACTIVITY EXHIBIT FORMATS

##### 090301. Purpose

The formats provided on the following pages reflect guidance presented in previous sections of this chapter. Adhere to these formats unless they are modified in a submission budget call. Modifications may be made to exhibit formats with the approval of the respective Revolving Fund analyst to eliminate redundant information or provide further clarification.

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\*Formats and Instructions for these exhibits are in the [DoD FMR](#), Volume 2A Chapter 3 for the OP-8 exhibits and Volume 2B Chapter 19 for the PB-15, PB-22 and PB-54 exhibits. [These exhibits should be included as part of the DoD Component's Appropriated Budget Justification.](#)

**Exhibit SM-1 Supply Management Summary**

**FY \_\_\_\_\_ BUDGET**  
**SUPPLY MANAGEMENT BY ACTIVITY DIVISION**  
 (DoD Component)  
 (Dollars in Millions)

			<b>Obligation Targets</b>						
<b>Business Division</b>	<b>Net Customer Orders</b>	<b>Net Sales</b>	<b>Operating</b>	<b>Mobilization</b>	<b>Direct Appn</b>	<b>Total Operating Obligations</b>	<b>Total Capital Obligations</b>	<b>Variability Target</b>	<b>Target Total</b>

**Exhibit SM-1 Supply Management Summary**

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

The purpose of the SM-1, Supply Management Summary by Activity Division exhibit, is to provide summary obligation justification for the DoD Component DWCF activity. Instructions for preparation of SM-1 exhibit follow:

1. Prepare the SM-1 exhibit for each year being reviewed (i.e., prior year, current year, and budget year).

2. Present dollars in millions to the third decimal place.

3. The current year request should represent current identified requirements and may not be equal to previous amounts approved in prior year budget submissions. The minimum information required for each activity division is as follows:

- Net Customer Orders
- Net Sales
- Operating Obligations
- Mobilization Obligations
- Direct Appropriations
- Total Operating Obligations- This amount is entered into the program line in the Comptroller Information System (CIS).
- Total Capital Obligations- This amount is entered into the capital line in CIS.
- Variability Target- This amount is not entered into CIS but is documented on the budget exhibit for inclusion in the apportionment from OMB.
- Target Total

**Exhibit SM-1 Supply Management Summary (Continued)**

**Exhibit SM-3a Requirements to Budget**

<b>FY ____ (DoD Component)      BUDGET</b>  <b>SUPPLY MANAGEMENT</b> <b>Requirements to Budget</b>	<b>DIVISION</b>		<b>DATE</b>
	<b>(Dollars in Millions)</b>		
	<b>PY ____</b>	<b>CY</b>	<b>BY ____</b>
<b>A. CUSTOMER DEMANDS</b>			
1. Total New Demands (Sales/Exchanges in FY)			
2. Stock Due Out (Backorders) (BOP)			
3. New Items (excluding provisioning)			
4. Provision (SM-5a element)			
5. Other Demands (Specify) (Non-reoccurring)			
<b>Total Customer Demands</b>			
<b>B. ASSETS AVAILABLE TO SATISFY CUSTOMER DEMANDS</b>			
1. Serviceable On Hand (BOP)			
2. Projected Deliveries			
3. Projected Funded Repairs			
4. Other Serviceable Asset Deliveries			
<b>Total Serviceable Assets Available</b>			
<b>C. FUNDING REQUIREMENT</b>			
1. Unfunded Demands (A-B)			
2. Transportation (FDT)			
3. Repair Costs			
4. Other Costs (Specify) (Reconcile to SM-1)			
<b>Total Funding Requirement</b>			
<b>Deferred Funding Adjustments</b>			
1. Requirement deferred/eliminated (-)			
2. Deferred requirement added (+)			
<b>Funding Requirement with Adjustments</b>			
<b>D. Non-WCF Initial Spares from other DoD Appropriations (memo entry)</b>			

Exhibit SM-3a Requirements to Budget



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

The purpose of the SM-3a **Requirements to Budget** exhibit provides backup information to support obligations based on inventory requirements determined by customer demand. That is, the SM-3a **Requirements to Budget** exhibit identifies resources required to replenish sales of inventory for each fiscal year (i.e., prior year, current year, budget year).

1. Prepare an SM-3a exhibit for each DWCF Supply activity (not each division). Non-inventory costs, as reflected on the Fund-1/1a Summary/Details of Price, Program and Other Changes exhibits, are considered “Overhead and Other Management Costs”. Total obligations reported on this exhibit represent obligations for inventory procurement/repair. Obligations on this exhibit, when added to the Fund-1 Summary of Price, Program and Other Changes must reconcile with the Total Operating Obligations column on the SM-1 Supply Management Summary by Division exhibit. Present dollars in millions to the third decimal place.

2. Use the latest inventory cycle available since the exhibit is due in September. Instead of using the standard price, it is recommended that the moving average cost (MAC) value be used and the Materiel Cost Adjustment (MCA) applied as a growth factor to the MAC for each fiscal year. This will represent the projected price change over time. If a standard price is used, the overhead costs (surcharge) must be removed as part of this exhibit to get to a more representative cost of inventory and the MCA will not be added.

3. The exhibit will no longer reconcile to the total inventory; rather, it will focus on the time-phased customer demands (sales or exchanges) including any backorders. Inventory available (i.e., on hand and projected serviceable deliveries from buy or repair), that will satisfy those demands will be applied against the customer requirements. Finally, the portion of the customer demands that will not be satisfied with the current projected funded deliveries will be calculated so they can be satisfied through funding for new purchases or repairs. Documented unfunded requirements will also include the other projected funding needs (e.g., first destination transportation and projected repair cost increases). This exhibit will only reflect mobilization requirements to reconcile to the SM-1 exhibit; it will not include unfunded WRM demands.

4. The exhibit will include new requirements (e.g., initial provision and establishing a new stock number to replace an existing one) paid through the DWCF. It will also require all DoD Components to show (as a memo entry) other requirements (sponsor-owned stock, BP 28, etc.) not in the DWCF. Note: the memo entry on this exhibit provides reconciliation for other inventory purchased outside of the DWCF that may later migrate into DWCF.

5. Section A of the exhibit will reflect the Customer Demands (historical & projected for the first fiscal year and projected for the following 2 fiscal years). Section B of the exhibit will reflect the inventory (serviceable on hand and projected deliveries from buy or repair) for each of the 3 fiscal years. Section C of the exhibit will reflect the funding requirements (part of the

**Exhibit SM-3a Requirements to Budget (Continued)**

budget) and any other unfunded (deferred) requirements. Section D of the exhibit will reflect the initial provision (memo entry) that is not funded through the DWCF. It is the total initial provisioning dollar value not under DWCF that is on hand or projected to be delivered by the beginning of the period (BOP).

**Exhibit SM-3a Requirements to Budget (Continued)**

**Exhibit SM-3b By Weapon System Requirements**

FY____ (DoD Component) BUDGET SUPPLY MANAGEMENT By Weapon System		WEAPON SYSTEM REQUIREMENTS/CATEGORY FY_____ (Dollars in Millions)				
<u>Weapon System</u>	Special Purchases	Basic Purchases	Basic Rework/ Repair	Initial Spares	Total Program	Non- MCRS Percent

**Exhibit SM-3b By Weapon System Requirements**

INSTRUCTIONS FOR PREPARATION OF  
WEAPON SYSTEM **REQUIREMENTS** (EXHIBIT SM-3B)

The SM-3B [Weapon System Requirements](#) exhibit provides 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 the SM-3B for each DWCF [Supply activity \(wholesale division\)](#) that provides military spare parts (excludes fuel, medical/dental, subsistence, etc.). For each division, prepare one Exhibit SM-3B for each fiscal year (CY, BY).

2. Definitions.

a. [Special Purchases](#) column includes outfitting, special programs and [any initial spares financed through a cost recovery element on the SM-5a Markup on Material Cost](#) exhibit.

b. [Basic Purchases](#) column consists of replacement spares *based on demands*.

c. [Basic Rework](#) column is repair obligations for sales replacement.

d. [Initial Spares](#) column includes any new inventory levels financed through other DoD appropriations in this column. In theory, this column should reconcile with the P-18 exhibits provided with the Initial Spares Budget Activity of the DoD Component's procurement appropriations.

e. [Total Program](#) column shows the total operating obligation request for each weapon system.

f. [Non-MCRS Percent](#) (Non-Mission Capable Rate Supply) column shows the percentage, by weapon system, that is not mission capable due to the lack of spare parts. Report this rate target for each budgeted fiscal year.

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

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

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

**Exhibit SM-3b Weapon System [Requirements](#) (Continued)**

**Exhibit SM-4 Inventory Status**

FY _____	BUDGET	DIVISION			DATE
SUPPLY MANAGEMENT		(Dollars in Millions)			
(DoD Component) INVENTORY STATUS		TOTAL	DEMAND BASED	MOBILIZATION	NON-DEMAND BASED
<b>1. Inventory BOP</b>					
<b>2. BOP Inventory Adjustments</b>					
A. Reclassification Change (Memo)					
B. Price Change Amount (Memo)					
C. Inventory Reclassified and Repriced					
<b>3. Purchases</b>					
<b>4. Gross Sales at MAC Value</b>					
<b>5. Inventory Adjustments</b>					
A. Capitalizations (Net) + 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					
<b>6. Inventory EOP</b>					
<b>7. Inventory EOP, Revalued (MAC, Discounted)</b>					
A. Economic Retention (Memo)					
B. Contingency Retention (Memo)					
C. Potential DoD Reutilization (Memo)					
<b>8. Inventory On Order EOP (Memo)</b>					
<b>9. NARRATIVE (Explanation of unusual changes)</b>					

## INVENTORY STATUS (EXHIBIT SM-4)

The SM-4 Inventory Status exhibit shows estimated inventory levels that will result from the proposed budgets and operating levels. Prepare the SM-4 at [the moving average cost \(MAC\) value](#) for the prior fiscal year, current year, and budget year for each supply management DWCF activity for each Program/Budget and President's Budget submission. A consolidated summary for the total Supply activity will be prepared for the OSD/OMB Review. The TOTAL column in the prior fiscal year exhibit shall reflect the amount from supply management general ledgers used in preparation of fiscal and accounting reports. Amounts in the DEMAND BASED, MOBILIZATION, and NON-DEMAND BASED columns may be statistically derived from related inventory reports. Instructions for preparation of SM-4 Inventory Status are as follows:

1. Inventory, BOP. (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 DoD Component must have title to all inventory listed here.
2. BOP Inventory Adjustments. Enter any adjustments required to the beginning position.
3. Purchases. 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.
4. Gross Sales at MAC value. Material sold to customer during the period of the report. [Should match the Cost of Goods Sold base value](#).
5. Inventory Adjustments.
  - a. Capitalizations (Net). Report the inventory value of material capitalized or de-capitalized during the period of the report. Show a net de-capitalization with (-) preceding value.
  - b. Returns from Customers for Credit. Show the cumulative amount of material returned from customers on which title has passed to the reporting supply management division during the period of the report for which credit has been given. *For fuel returns, show the cumulative amount of fuel returned based on market price valuation of current inventory.*
  - c. Returns from Customers without Credit. Show the cumulative amount of material returned from customers on which title has passed to the reporting supply management division during the period of the report for which credit was not given.
  - d. Returns to Suppliers. Show as a negative number the cumulative amount of material returned to supplier during the period of the report.
  - e. Transfers to Property Disposal. Show the net amount of material transferred to/from the [DLA Disposition Service on which title has been passed to DLA](#).

**Exhibit SM-4 Inventory Status (Continued)**

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.

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

h. Total Adjustments. Add 5a through 5g.

6. Inventory EOP. (End of Period) Report the amount of inventory available at the end of the reporting period, including all on hand, in transit, work-in-process, and other stocks to which the reporting stock fund division holds title.

7. Inventory EOP, Revalued (MAC, Discounted). Enter any adjustments required to the ending position.

8. Inventory on Order, EOP (memo). Report the amount of **demand based** and mobilization undelivered orders (excluding in transit) for material outstanding at the end of the period.

9. Narrative. Provide additional information and description as needed.

**Exhibit SM-4 Inventory Status (Continued)**

## Exhibit SM-5a Markup on Materiel Cost

**Supply Management Activities – Standardized Rate  
Markup on Materiel Cost (Wholesale) Cost Recovery Calculation**

	(\$M) CY Approved	(\$M) CY Requested	(\$M) BY
<b>Cost Category</b>			
<u>Materiel Costs Section</u>			
a. Materiel Costs without Inflation (MAC)			
b. Materiel Inflation (normal inflation)			
c. Materiel Cost Adjustment (includes obsolescence, losses and washouts)			
<b>1. Total Materiel Costs</b>			
<u>Overhead Costs (Fund-1/1a) Section</u>			
a. Personnel Costs (Military and Civilian)			
b. Operating Equipment and Supplies (Lines 400 & 500)			
c. Transportation (Lines 300 & 700)			
d. Other Purchased Services (Line 900)			
e. DLA Distribution			
f. DLA Disposition (DRMS)			
g. DLA Other			
h. DFAS			
i. DISA (All)			
j. Other DWCF Purchases (Remainder of Line 600)			
<b>2. Total Overhead Costs</b>			
<u>Price Adjustments Section</u>			
a. Depreciation			
b. Capital Outlay Recovery (Surcharge)			
c. AOR Recovery			
d. Cash Adjustment			
<b>3. Total Pricing Adjustments</b>			
<u>Markup on Materiel Cost Section</u>			
a. Line 2 + Line 3 (Overhead Costs + Pricing Adjustments)			
b. Line 1 (Total Materiel Costs)			
c. Total Wholesale Revenue (a + b)			
<b>4. Total Markup on Materiel Cost (Standardized Rate) (a / b)</b>			

## Exhibit SM-5a Markup on Materiel Cost



INSTRUCTIONS FOR PREPARATION OF EXHIBIT SM-5a  
MARKUP ON MATERIEL COST

The SM-5a Markup on Materiel Cost exhibit shows how to calculate the Standardized Rate for Supply DWCF Activities. Each Service/Agency will provide a consolidated exhibit for the sum of all wholesale divisions managed by that Service/Agency. The current year (CY) requested on this exhibit will match all CY data represented on all other reconciling budget exhibits (Fund-14, Fund-1). The CY approved represents what was submitted in previous budgets; in theory, all adjustments from previous budgets will be reflected in the AOR adjustment line of the budget year (BY).

Materiel Costs Section. There are three factors that make up materiel costs. Total Materiel Costs is the denominator in the Markup on Materiel Cost calculation.

a. Materiel Costs without Inflation (MAC). This is a representation of the historic value of inventory (and repair costs). The official valuation methodology for the DWCF is Moving Average Cost (MAC), based on proprietary accounting. However, valuing inventory solely at the MAC value for budget purposes will not generate sufficient resources for cash outlays to maintain current inventory levels.

b. Materiel Inflation (normal inflation). This line represents the amount of “normal inflation” as approved by OMB and OUSD(C) in published memoranda. The line may be used by the DoD Component to break out this type of inflation separately from any other materiel cost growth for reconciliation purposes; it is not a mandatory line and these costs may be included in line C as part of the “Materiel Cost Adjustment”. Do not double count “normal inflation” on both lines.

c. Materiel Cost Adjustments (includes obsolescence, losses and washouts). All other adjustments involving the actual purchase or repair of inventory above that of the previous year. This line should include normal inflation if line b is not used (it should not include normal inflation if line b is used). Materiel costs associated with losses, obsolescence and wash out (condemnation) of reparable are also included in this line.

Overhead Costs (Fund-1/1a) Section. Total overhead costs should reconcile to the Fund-1 Summary of Price, Program and Other Changes exhibit less the amount displayed (if any) on the Fund-14 Revenue and Costs exhibit for direct reimbursable revenue. In theory, direct reimbursable revenue should not include a cost recovery rate and should cover all costs involved for the work performed. Depreciation is shown as a price adjustment instead of an overhead cost because it is a cash recovery element for capital obligations. Overhead categories directly relate to the corresponding line on the Fund-1/1a Summary/Detail of Price, Program and Other Changes exhibit.

Pricing Adjustments Section. Pricing adjustments increase or decrease budgetary resources but are not related to Materiel or Overhead costs. There are four types of price adjustments.

**Exhibit SM-5a Markup on Materiel Cost (Continued)**

a. Depreciation. Represents the yearly cash recovery of CIP obligations and outlays based on the useful life of the asset purchased. This is a mandatory line.

b. Capital Outlay Recovery (Surcharge). An adjustment to the depreciation amount either to accelerate cash recovery if outlays are significantly exceeding depreciation or to reduce the amount of depreciation to the amount of obligations for the CIP when cash resources are sufficient. This is not a mandatory line.

c. AOR Recovery. This amount should be equal to the NOR for the respective year on the Fund-14. This is a mandatory line.

d. Cash Adjustment. May be used to adjust the cash resources available to that specific DWCF Activity (not as an adjustment to the cash available at the DoD Component level). All cash adjustments at the DWCF Activity level should reconcile to the Fund-13, Cash Management Plan (e.g. a DWCF Activity should not show a cash increase on the Fund-13 with a negative cash adjustment on the SM-5). This is not a mandatory line.

Markup on Materiel Cost Section. Line 4. Total Markup on Materiel Cost (Standardized Rate (a/b) equals (Line 2. Total Overhead Costs + Line 3. Total Pricing Adjustments) divided by Line 1. Total Materiel Costs, displayed as a percentage. Adding Materiel Costs, Total Overhead Costs, and Total Pricing Adjustment equals total wholesale revenue as displayed on the SM-16 Unit Cost Summary exhibit. Total wholesale revenue, retail revenue and direct reimbursables equals total Gross Sales as displayed on the Fund-14 Revenue and Costs and SM-16 Unit Cost Summary exhibits.

**Exhibit SM-5b OP-32 Price Change to Customers**

<b>OP-32 Price Change to Customers</b>	<b>CY (Approved)</b>	<b>BY</b>
<b>A. Total Materiel Costs without Inflation (Line 1a)</b>		
<u>Price Growth for OP-32</u>		
Materiel Inflation (if used) plus Materiel Cost Adjustment (Line 1b + Line 1c)		
Total Overhead Costs plus Total Pricing Adjustments (Line 2 + Line 3)		
<b>B. Total Additional Price to Customer</b>		
<b>C. Additional Price Percentage (B/A)</b>		
OP-32 Price Change (Percent Change in Additional Price Percentage from CY (Approved) to BY)		

INSTRUCTIONS FOR PREPARATION OF EXHIBIT SM-5b  
OP-32 PRICE CHANGE TO CUSTOMERS

The OP-32 Price Change to Customers exhibit may be presented on the same page as the SM-5a Markup on Material Cost exhibit. For the President's Budget Justification Book, the published OP-32 Price Change to Customers exhibit for the PY, CY, and BY will be presented in the narrative section with a brief explanation of the change from the previous year. The SM-5b OP-32 Price Change to Customers exhibit will be required as a backup exhibit to the President's Budget. All figures for the OP-32 Price Change are depicted in the SM-5a Markup on Material Cost exhibit.

**A. Total Materiel Costs without Inflation (Line 1a).** These are the amounts displayed on the SM-5a Markup on Material Cost exhibit that represent changes in purchases without inflation or pricing factors.

**B. Total Additional Price to Customer.**

Materiel Inflation plus Materiel Cost Adjustment. The amount of "normal inflation" (SM-5a Line 1b) plus other Materiel Costs not accounted for by "normal inflation" (SM-5a Line 1c).

Overhead Costs plus Pricing Adjustments. This should be equal to the SM-5a Markup on Material Cost exhibit Line 4a.

OP-32 Price Change. The formula for the percentage change to customers is:

$$((1+BY \text{ Line C}) \text{ divided by } (1+CY \text{ (Approved) Line C})) \text{ minus } 1.$$

This change represents the change in price at the item level that were affected by both price and program changes in the customer budget.

**Exhibit SM-5b OP-32 Price Change to Customers**

## Exhibit SM-6 War Reserve Material

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

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

**Exhibit SM-6 War Reserve Material (Continued)**

WAR RESERVE MATERIAL (WRM)  
EXHIBIT SM-6

The purpose of the WRM exhibit is to notify Congress of the Department's intentions regarding the management of secondary item war reserves. Stockpile status and costs sections show the current and budgeted amounts for the inventory and the costs associated with maintaining these levels. The budget request section notifies Congress of the amounts of obligations to be used to acquire or maintain war reserve items and quantities. "Protected status" applies to items that may not be sold. "Other" applies to WRM that must be sold and replenished due to stock rotation or shelf-life issues. Exhibit instructions are as follows:

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

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

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

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

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

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

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

e. Other. As appropriate.

**Exhibit SM-6 War Reserve Material (Continued)**

## Exhibit SM-16 Total Cost Per Unit Summary

Supply Management  
Total Cost per Output Summary

<u>Category</u>	<u>Unit Cost</u>	<u>(\$M)</u>	<u>Obligations</u>
Wholesale Sales@Cost			
Retail Sales@Cost			
Wholesale Overhead			
Other Reimbursable Overhead (Direct Reimbursables)			
Direct Appropriation			
Less Credit			
Less Depreciation			
<b>PY Total Operating Obligation Authority (SM-1)</b>			
Wholesale Sales@Cost			
Retail Sales@Cost			
Wholesale Overhead			
Other Reimbursable Overhead (Direct Reimbursables)			
Direct Appropriation			
Less Credit			
Less Depreciation			
<b>CY Total Operating Obligation Authority (SM-1)</b>			
Wholesale Sales@Cost			
Retail Sales@Cost			
Wholesale Overhead			
Other Reimbursable Overhead (Direct Reimbursables)			
Direct Appropriation			
Less Credit			
Less Depreciation			
<b>BY Total Operating Obligation Authority (SM-1)</b>			

**Instructions:** This exhibit is a backup that reconciles the Budget Authority request to the SM-1 Supply Management Summary by fiscal year. Unit cost is calculated by dividing total obligations by sales associated with the obligations incurred. All amounts displayed must correspond to the applicable budget exhibit for reconciliation purposes.

## Exhibit SM-16 Total Cost Per Unit Summary

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

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

Component:

Activity:

Date:

(\$ in Millions)

	<u>Cost of Ops FY PY</u>	<u>Cost of Ops FY CY</u>	<u>Price Growth</u>	<u>Program &amp; Other Changes</u>	<u>Cost of Ops FY BY</u>
Military Personnel Compensation (Fund-1a lines 010-050)					
Civilian Personnel Compensation and Benefits (including FNIH personnel) (Fund- 1a lines 101-121)					
Travel and Transportation of Personnel (Fund-1a lines 301-307)					
Material & Supplies (For Internal Operations) (Fund-1a lines 401-422)					
Equipment (Fund-1a lines 502-550)					
Other Purchases from Revolving Funds (Fund-1a lines 601-699, except 633, 634, and 671)					
Transportation of Things (Fund-1a lines 701-761)					
Depreciation (Fund-1a lines 802-805)					
Printing and Reproduction (Fund-1a lines 633 and 921)					
Advisory and Assistance Services (Fund-1a line 931)					
Rent, Communications, Utilities, and Miscellaneous Charges (Fund-1a lines 634, 671, 912, 913, 914, and 915)					
Other Purchased Services (All other Fund-1a lines)					
<b>Total Operating Budget</b> (includes Direct Reimbursables; this total less Direct Reimbursables equals overhead costs on the SM-5)					
Less Depreciation (Non-supply Only)					
CIS Obligation Amount (Non-supply Only)					
Inventory Procurement Expenses (Supply Management Only; COGS on the Fund-14)					
<b>Total Costs (Supply Management Only; reconciles to Total Costs on the Fund-14)</b>					

## 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 [direct reimbursements from non-rate based work](#)) to accomplish the DWCF [activity mission](#). The Fund-1 is the Summary Exhibit that consolidates the information from the Fund-1A Details of Price, Program and Other Changes exhibit. The Components are required to address changes in cost between fiscal years as either price or program. Price changes are restricted by the inflation index published in OUSD(C) guidance with the exception of price increase resulting from another DWCF activity's rate changes. In addition, Components must reflect the depreciation expense for all capital benefiting the activity ([reconciles to the Fund-14 Revenue and Costs, Fund-9a Capital Investment Summary, SM-5a Markup on Material Cost, SM-16 Unit Cost Summary exhibits](#)). Both the Summary Exhibit (Fund-1) and the Detail Exhibit (Fund-1a), which reflects the costs incurred to support sales activity, are required for all DWCF [activities](#).

**Exhibit Fund 1 Summary of Price and Program Changes – Costs (Continued)**



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

**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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
<b><u>MILITARY PERSONNEL COMPENSATION</u></b>					
010					
Officer Composite – Civilian Equivalent Rates					
050					
Enlisted Composite – Civilian Equivalent Rates					
<b>Total Military Personnel Compensation</b>					
<b><u>CIVILIAN PERSONNEL COMPENSATION</u></b>					
101					
Executive, General, and Special Schedule					
103					
Wage Board					
104					
Foreign National Direct Hire (FNDH)					
105					
Separation Liability (FNDH)					
106					
Benefits to Former Employees					
107					
Voluntary Separation Incentive Program					
110					
Unemployment Compensation					
111					
Disability Compensation					
112					
Retirement Fund Offset (15% of Employee’s final basic pay)					
121					
Permanent Change of Station (PCS)					
<b>Total Civilian Personnel Compensation</b>					
200					
Cost of Inventory Sold					
<p>Note: This category applies to Supply Management DWCF Activities and represents Inventory Procurement/Repair Expenses and not obligations to acquire inventory.</p>					
<b><u>TRAVEL</u></b>					
308					
Travel of Persons					

**Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)**

**Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)**

**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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
<b><u>MATERIAL &amp; SUPPLIES (FOR INTERNAL OPERATIONS)</u></b>						
401	DLA Energy Fuel Products (DESC)					
402	Service Fuel (Other than DLA Energy)					
411	Army Managed Supplies and Materials					
412	Navy Managed Supplies and Materials					
413	Marine Corps Supply					
414	Air Force Consolidated Sustainment (Supply)					
416	GSA Managed Supplies and Materials					
<b><u>MATERIAL &amp; SUPPLIES (FOR INTERNAL OPERATIONS) continued</u></b>						
417	Locally Purchased Supplies & Materials (Other than from Supply Management)					
418	Air Force Retail Supply (General Support Division)					
419	Air Force Retail Supply (Medical-Dental Division)					
420	Air Force Retail Supply (AF Academy Division)					
421	DLA Materiel Supply Chain (Clothing and Textiles)					
422	DLA Materiel Supply Chain (Medical)					
423	DLA Materiel Supply Chain (Subsistence)					
424	DLA Materiel Supply Chain (Weapon Systems)					
	<b>Total Material, Equipment &amp; Supplies</b>					

**Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)**

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

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

	<u>Cost of Operations FY --</u>	<u>Annualization of Pay Raises</u>	<u>Price Growth</u>		<u>Program &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
			<u>Percent</u>	<u>Amount</u>		
<b><u>EQUIPMENT PURCHASES (Non-CIP)</u></b>						
502	Army (Fund) Equipment					
503	Navy (Fund) Equipment					
505	Air Force (Fund) Equipment					
506	DLA Materiel Supply Chain (Fund) Equipment					
507	GSA Managed Equipment					
	<b>Total Equipment Purchased from the Fund</b>					
<b><u>OTHER REVOLVING FUND PURCHASES</u></b>						
601-699	(As follows:)					
601	Army Industrial Operations					
603	DLA Distribution Depot (Army Specific Services)					
610	Naval Air Warfare Center					
611	Naval Surface Warfare Center					
612	Naval Undersea Warfare Center					
613	Naval Fleet Readiness Centers (Aviation Depots)					
614	Space and Naval Warfare Center					
<u>Transportation:</u>						
620	Navy Transportation (Combat Logistics Force)					
621	Navy Transportation (Afloat Prepositioning Force, Navy)					

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

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

**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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
623 Navy Transportation (Special Mission Ships)					
624 Navy Transportation (Joint High Speed Vessels)					
625 Navy Transportation (Service Support)					
653 Transportation (Airlift Services (Training))					
630 Naval Research Laboratory					
<u>Navy Base Support Services:</u>					
631 Navy Base Support (NFESC)					
634 Navy Base Support (NAVFEC: Utilities & Sanitation)					
635 Navy Base Support (NAVFEC: Other Support Services)					
639 Facility Engineering (Composite Rate)					
640 Marine Corps Depot Maintenance					
661 Air Force Consolidated Sustainment (Maintenance)					
<u>DLA</u>					
633 DLA Document Services (DAPS)					
670 DLA Transaction Services (DAAS)					
674 DLA Distribution Depots					
675 DLA Disposition Services (DRMS)					

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
<u>DISA</u>						
647						
	DISA Computing Services					
671						
	DISA DISN Subscription Services (DSS)					
677						
	DISA Telecomm Services – Other					
678						
	DISA IT Contracting Services					
672						
	Purchases From Pentagon Reservation Maintenance Revolving Fund (PRMRF)					
679						
	Cost Reimbursable Purchases					
 <u>OTHER</u>						
680						
	Purchases from the Buildings Maintenance Fund					
682						
	Industrial Mobilization Capacity					
 <u>DFAS</u>						
673						
	DFAS Financial and Accounting Service					
691						
	DFAS Financial Operations – Army					
692						
	DFAS Financial Operations – Navy					
693						
	DFAS Financial Operations – Air Force					
694						
	DFAS Financial Operations – Marine Corps					
695						
	DFAS Financial Operations – DLA					
696						
	DFAS Financial Operations – Other Defense Agencies					
	<b>Total Other Fund Purchases</b>					

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

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
<b><u>TRANSPORTATION</u></b>					
701	AMC Cargo				
702	AMC SAAM				
703	AMC JCS Exercises				
704	Defense Courier Service				
705	AMC Channel Cargo				
706	AMC Channel Passenger				
707	AMC Training				
708	MSC Chartered Cargo				
709	MSC Surge Sealift (Reduced Operation Status)				
710	MSC Surge Sealift (Full Operating Status)				
714	MSC POL Tanker ships				
716	MSC Surge Sealift				
717	SDDC Global POV				
718	SDDC Liner Ocean Transportation				
719	SDDC Cargo Operations (Port Handling)				
720	DCS Pounds Delivered				
722	MSC Afloat Prepositioning (Army)				
723	MSC Afloat Prepositioning (Air Force)				
724	MSC Afloat Prepositioning (DLA)				
727	SDDC Other				
771	Commercial Transportation				
	<b>Total Transportation</b>				
	OCONUS Transportation-Supply Mgt only (Memo)				

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

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
<b><u>CIP DEPRECIATION</u></b>						
802	Equipment, except ADPE and Telecommunications Equipment (depreciation)					
803	ADPE and Telecom Resources (depreciation)					
804	Software Development (depreciation)					
805	Minor Construction (depreciation)					
	<b>Total CIP Depreciation</b>					
<b><u>OTHER PURCHASED SERVICES</u></b>						
901	Foreign National Indirect Hire (FNIH)					
902	Separation Liability (FNIH)					
912	Rental Payments to GSA (SLUC)					
913	Purchased Utilities (non-Fund)					
914	Purchased Communications (non-Fund)					
915	Rents & Leases (non-GSA)					
917	Postal Services (U.S.P.S.)					
920	Supply & Materials (non-Fund)					
921	Printing & Reproduction					
922	Equipment Maintenance by Contract					
923	Facility Sustainment, Restoration, and Modernization by Contract					
925	Equipment Purchases (Non-Fund)					
927	Air Defense Contracts and Space Support (AF)					
928	Ship Maintenance by Contract					
929	Aircraft Rework by Contract					

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

## Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)

**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 &amp; Other Changes</u>	<u>Cost of Operations FY --</u>
930 Other Depot Maintenance (non-Fund)					
932 Management and Professional Support Services					
933 Studies, Analysis, and Evaluation					
934 Engineering and Technical Services					
941 Technical Drawings (Supply Operations only)					
942 Forgings & Castings (Supply Operations only)					
969 Other Engineering Services & Support					
984 Equipment Contracts					
985 R&D Contracts					
989 Other Contracted Services					
998 SOCOM USE ONLY					
<b>Total Other Purchases</b>					
<b>TOTAL COST OF OPERATIONS</b> (Includes Direct Reimbursements)					

**Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)**



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

General. The Fund-1a exhibit reflects the total costs of supporting the applicable activity for each fiscal year PY, CY, and BY. Components must address changes in cost between years as price- or program-driven for each line item. All DWCF activities will report the budgeted depreciation of the activity for CIP purchases that will result in a DWCF outlay. All entries are obligations except for depreciation and the Inventory Procurement Expense (Supply Management DWCF Activities). Round data to at least the nearest tenth of a million (e.g., show \$10.4 million, not \$10 million).

Military Personnel Compensation - Chapter 26 of the DoD Accounting Manual depicts cost elements for Military Personnel.

Civilian Personnel Compensation - The cost elements include VERA and RIF as well as the costs to offset the short-term costs of buyouts. Line 112 Retirement Fund Offset (15 percent of Employee's final basic pay) applies to employees who take a buyout and voluntary early retirement under the Civil Service Retirement System (CSRS).

Line 200 Cost of Inventory Sold applies to Supply Management activities only and represents the cost of Inventory Procurement/Repair Expenses (not obligations).

Material & Supplies - These elements support internal material, equipment, and supply costs associated with operations. Distinguish between costs associated with material purchased from Fund businesses and that purchased from non-Fund businesses.

Use Lines 601-696 Other Revolving Fund Purchases for purchases from other DWCF activities (to include the Pentagon Reservation Maintenance Revolving Fund and the Building Maintenance Fund) to support the internal operations of the activity. Include purchases by supply activities from depot maintenance activities in the respective 600 Other Revolving Fund Purchases category. Report purchases from the DWCF supply activities to support internal General and Administrative operations (not consumed as part of direct or indirect business operations) in category 400. Lines 601-675 should include purchases made at stabilized rates.

Other Purchases

Line 941 Technical Drawings (Supply Operations only) - The amount entered for Technical Drawings will agree with the amount for this element in supporting budget justification materials.

Line 942 Forgings & Castings (Supply Operations only)- The amount entered for Forgings and Castings will agree with the amount for this element in supporting budget justification materials.

Purchases of engineering services, other than those shown on lines 932-934, should be included on line 969, Other Engineering Services and Support.

Delete lines for which there are no costs from the submitted exhibit (rather than including them with an amount of zero).

**Exhibit Fund-1a Details of Price and Program Changes - Costs (Continued)**

Exhibit Fund-2 Changes in Costs of Operations

Changes in the Costs of Operation

Component/Activity:

Date:

(Dollars in Millions)

Costs

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 BY 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 BY Estimate:

Exhibit Fund-2 Changes in Costs of Operations

**Exhibit Fund-2 Changes in Costs of Operations (Continued)**Instruction for the Preparation of the Fund-2 Exhibit  
Changes in the Cost of Operations

The Fund-2 exhibit will explain the changes in the operating budget (**costs**) from one fiscal year to the next (i.e., FY to CY to BY) 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 **non-supply DWCF** activity is required. Strategies and plans to improve activity productivity and quality are of particular interest. Accordingly, the cost impacts of productivity initiatives should be separately identified on this schedule. Each DWCF **activity** should include a paragraph outlining major productivity improvement plans and associated resources including but not limited to capital investment, education and training initiatives, process improvements, consolidation and streamlining, work force motivations, and incentives.

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

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

**Exhibit Fund-2 Changes in Costs of Operations (Continued)**

## Exhibit Fund-3 Labor and Manpower Breakdown

Labor and Manpower Breakdown  
 Component: \_\_\_\_\_  
 Activity: \_\_\_\_\_  
 Date: \_\_\_\_\_

(\$ in Millions)

	PY	CY	BY
Direct Labor			
Direct Non-Labor			
Direct Materials			
Direct Contracts			
Direct Depreciation			
Direct Other			
Total Direct			
Indirect Labor			
Indirect Non-Labor			
Indirect Materials			
Indirect Contracts			
Indirect Depreciation			
Indirect Other			
Total Indirect			
G&A Labor			
G&A Non-Labor			
G&A Materials			
G&A Contracts			
G&A Depreciation			
G&A Other (Installation Management Costs)			
Total G&A			
Total Cost of Operations (reconciles to Fund-1/1a)			
Manpower			
Direct Civilian FTEs			
Indirect Civilian FTEs			
G&A Civilian FTEs			
Total Civilian FTEs			
Direct Military E/S			
Indirect Military E/S			
G&A Military E/S			
Total Military E/S			

Exhibit Fund-3 Labor and Manpower Breakdown

**Exhibit Fund-3 Labor and Manpower Breakdown (Continued)**Instruction for the Preparation of Exhibit Fund-3  
Labor and Manpower Breakout

The Fund-3 exhibit stratifies, by fiscal year (i.e., PY, CY, BY), the total DWCF activity costs in the operating budget by Direct, Indirect Production, and General and Administrative (G&A) categories. For the G&A category, only the military and civilian personnel carried in and paid for by the DWCF activity should be reflected in the personnel FTE and end strength numbers. This includes personnel paid from the activity payroll such as assigned security guards and personnel working in the office of the DWCF activity director. However, this does not include the personnel assigned to a general & administrative activity that provides base operations support to the activity unless they are carried in the end strength of the DWCF activity.

For installations owned and operated by a DWCF activity whose primary mission is other than installation management, costs associated specifically with installation management should be identified as G&A Other. These costs will be considered separate and distinct from mission G&A costs.

Compute FTEs by dividing the applicable total number of hours by the number of hours in a work year (e.g., 2080; see OMB Circular A-11 for the correct hours for each year).

**Exhibit Fund-3 Labor and Manpower Breakdown (Continued)**

Exhibit Fund-5 Total Cost Per Output Summary

**Total Cost Per Output Summary**  
**Component:** \_\_\_\_\_  
**Activity:** \_\_\_\_\_  
**Date:** \_\_\_\_\_  
 (\$ Millions)

	<u>Workload</u>			<u>Unit Cost</u>			<u>Total Cost</u>		
	<u>PY</u>	<u>CY</u>	<u>BY</u>	<u>PY</u>	<u>CY</u>	<u>BY</u>	<u>PY</u>	<u>CY</u>	<u>BY</u>
Output Operating Budget									
List each output whether measured or not.	Estimated workload 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.		
=====									

Exhibit Fund-5 Total Cost Per Output Summary

Instruction for the Preparation of Exhibit Fund-5  
Total Cost Per Output Summary

The Fund-5 is required for all activities except supply activities. Only a single line is required for industrial activities summarizing the cost rate (not the standardized rate for revenue collection) per direct labor hour (DLH) for the PY, CY and BY. Activities that have multiple outputs and use a standardized rate based on a revenue per specific unit of output (Transportation, Base Support, DFAS, DISA) should report the cost per specific unit of output (not revenue rate) as depicted on the DWCF activity's respective annual operating budget (AOB).

**Exhibit Fund-5 Total Cost Per Output Summary**

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

COMPONENT: \_\_\_\_\_

**DEPOT MAINTENANCE 6 PERCENT CAPITAL INVESTMENT PLAN**

(Dollars in Millions)

	REVENUE (Maintenance, Repair, Overhaul)			BUDGETED CAPITAL (Modernization, Efficiency)		
	<u>3 year average</u>			Prior <u>Year</u>	Current <u>Year</u>	Budget <u>Year</u>
	Prior <u>Year</u>	Current <u>Year</u>	Budget <u>Year</u>			
	PY(-1)	CY(-1)	BY(-1)			
PY(-2)	CY(-2)	BY(-2)				
	PY(-3)	CY(-3)	BY(-3)			
<b>Revenue (Avg)</b>	*	*	*			
Working Capital Fund	*	*	*			
Appropriations (if applicable)	*	*	*			
<b>WCF Depot Maintenance Capital Investment</b>				*	*	*
Facilities/ Work Environment				*	*	*
Equipment				*	*	*
Processes				*	*	*
<b>Appropriated Funding - List by Appropriation</b>				*	*	*
MILCON						
Procurement						
Operation & Maintenance						
<b>Component Total</b>				*	*	*
Minimum 6% Investment				*	*	*
<b>Investment Over/Under Requirement</b>				*	*	*

Narrative:

**Exhibit Fund-6: Depot Maintenance-6 Percent Capital Investment Plan (Continued)**



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

The National Defense Authorization Act (NDAA) for FY 2012 (P.L. 112-81) significantly modified the requirements for identifying the amount of funding allocated for capital investments at depots. Specifically, note that sustainment costs included in the operations portion of the budget do not count towards the 6 percent minimum capital investment requirement.

**SEC. 325. MODIFICATION OF REQUIREMENTS RELATING TO MINIMUM CAPITAL INVESTMENT FOR CERTAIN DEPOTS.**

Section 2476 of title 10, United States Code, is amended—

(1) in subsection (a), by inserting “**maintenance, repair, and overhaul**” after “combined”;

(2) in subsection (b)—(A) by striking “includes investment funds spent on depot infrastructure, equipment, and process improvement in direct support” and inserting “includes **investment funds spent to modernize or improve the efficiency of depot facilities, equipment, work environment, or processes** in direct support”; and (B) by inserting before the period at the end the following: “, **but does not include funds spent for sustainment of existing facilities, infrastructure, or equipment**”.

(3) in subsection (d), by adding at the end the following new subparagraph: “(E) **A table showing the funded workload performed by each covered depot for the preceding 3 fiscal years and actual investment funds allocated to each depot for the period covered by the report.**”; and (4) in subsection (e)(1), by adding at the end the following new subparagraph: “(I) Tooele Army Depot, Utah.”

These changes have been incorporated into the Fund-6 template. In addition to the requirement of a summary exhibit, a separate Fund-6 must now be included for each depot specified in Section 2476 of title 10, United States Code to comply with amendment (3) as stated above.

Instructions for preparation of Exhibit Fund-6 are as follows:

1. Prepare a **Summary** Exhibit Fund-6 that provides the total for the activity and a separate **Fund-6** for each maintenance depot to include Army Depots, Navy Aviation Depots, Navy Shipyards, Marine Corps Depots, and Air Force Depots.

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

2. Dollars in millions and tenths of a million.
3. The following will be defined:
  - a. Revenue (Avg): Only revenue for Maintenance, Repair and Overall will be included in accordance with amendment (1).
  - b. Revenue (3 Year Average): The preceding 3 years of actual or estimated revenue divided by three for Prior Year, Current Year, and Budget Year columns.
  - c. Categories of applicable capital investment:
    1. Modernization. Typically refers to upgrades associated with the available current technology.
    2. Efficiency. Typically refers to efforts to improve workflow and increase throughput while maintaining or reducing current costs. Also may refer to improved quality of work performed.
    3. If a modernization leads to an efficiency, then the investment is still considered a modernization. An efficiency not dependent on a modernization is classified an efficiency. If an investment has elements of both, the DoD Component should record the best representation that can be determined.
4. A narrative should be included with the Exhibit Fund-6 to address the following:
  - a. A specification of any statutory, regulatory, or operational impediments to achieving the minimum percentage requirement.
  - b. A description of the benchmarks for capital investment established for each covered depot and military department and the relationship of the benchmarks to applicable performance measurement methods used in the private sector.
  - c. If the minimum percentage requirement is not met for a military department for the fiscal year covered by the report, a statement of the reasons why the requirement was not met and a plan of actions for meeting the requirement for the fiscal year beginning in the year in which the report is submitted.
5. The legislation provides waiver authority for the Secretary of Defense if the Secretary determines that the waiver is necessary for reasons of national security and notifies congressional defense committees.

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

**Exhibit Fund-7 Customer Rate Computations**

**CUSTOMER RATE COMPUTATIONS**  
 Department of (Component Name)  
 Activity: \_\_\_\_\_

<b>Part I: Stabilized Revenue Rate:</b>	<b>CY Stabilized Rate</b>	<b>DLHs</b>	<b>(\$)</b>
Revenue (Fund-14)		XXX	XXX
Less Direct Reimbursables (Non-Rate Based)		XXX	XXX
<b>Revenue from Rates</b>		<b>XXX</b>	<b>XXX</b>
Revenue from CY Orders	XXX	XXX	XXX
<b>Revenue from BY Orders</b>		<b>XXX</b>	<b>XXX</b>
<b>BY Stabilized Revenue Rate</b>			<b>XXX</b>
<b>Part II: Stabilized Cost Rate:</b>			
Revenue from Rate Based Orders			XXX
Less NOR Adjustment			XXX
Other Adjustments (List and Explain)			XXX
<b>Total Rate Based Costs</b>		<b>XXX</b>	<b>XXX</b>
<b>BY Cost Rate (Fund-5)</b>			<b>XXX</b>
<b>Part III: Fund-1 Reconciliation</b>			
Total Rate Based Costs		XXX	XXX
Direct Reimbursables			XXX
<b>Total Fund-1 Summary of Price, Program, and Other Changes</b>			<b>XXX</b>
<b>Percentage rate Change from CY (BY Stabilized Revenue Rate / PY Stabilized Revenue Rate) -1</b>			<b>XXX</b>

**Exhibit Fund-7 Customer Rate Computations**

Instructions for the Preparation of Exhibit Fund-7,  
Customer Rate Computations

The purpose of this exhibit is to establish a standardized rate to customers that reconciles Revenue, Total Costs, and Net Operating Results for industrial DWCF activities using Direct Labor Hours (DLHs).

For industrial activities, program financing (revenue) is a function of the estimated of the total cost of goods sold (total expenses) adjusted for NOR, Capital Requirements and other surcharges, divided by the programmed output (total Direct Labor Hours), to identify an initial revenue rate per direct labor hour.

The number of military and civilian DLHs associated with carry-in workload (unfilled customer orders on hand at the start of the current year) times the prior year stabilized rate (rate in effect when the carry-in orders were accepted) will be identified as revenue earned in the current fiscal year. The DLHs and associated dollars will be subtracted from the BY total DLHs and revenue as identified above.

Part I: All revenue associated with direct reimbursable costs (non-rate based workload) and orders received in the current year must be removed with the associated DLHs in order to forecast a BY Revenue Rate for new orders. Total revenue must cover all projected costs and NOR adjustments as depicted on the Fund-14. The BY revenue rate is the revenue expected from new orders divided by the DLHs associated with that workload.

Part II: The NOR adjustment must be subtracted from the total rate based revenue (not just the new order revenue) because total expenses in the BY will be a combination of CY and BY workload. Subtracting a negative NOR will add to the costs reflecting costs greater than revenue as depicted on the Fund-14. The BY cost rate is total rate based costs divided by total rate based DLHs (not just new order revenue DLHs). The BY cost rate, total rate based costs, and total rate based DLHs should reconcile to the Fund-5.

Part III: Total Fund-1 Summary of Price, Program, and Other Changes costs should reconcile with total rate based costs and direct reimbursables.

**Exhibit Fund-7 Customer Rate Computations (Continued)**

**Exhibit Fund-8 Air Mobility Command Common User Services**

<b>COMMON USER TRANSPORTATION SERVICES</b> <b>TRANSPORTATION WORKING CAPITAL FUND</b> (\$ in Millions)			
	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY</u>
1. Beginning Accumulated Operating Results			
2. Cost of Operations			
a. Channel Passenger			
b. Channel Cargo			
c. Joint Chiefs/Special Airlift			
d. Training			
Total Costs			
3. A. Rate and Reimbursable Revenue			
a. Channel Passenger			
b. Channel Cargo			
c. Joint Chiefs/Special Airlift			
d. Training			
3A. Total Rate and Reimbursable Revenue			
B. Airlift Readiness Revenue			
a. Channel Passenger			
b. Channel Cargo			
c. Joint Chiefs/Special Airlift			
d. Training			
3B. Total Airlift Readiness Revenue			
Total Revenue			
4. Net Operating Results			
5. Ending Accumulated Operating Results			

**Exhibit Fund-8 Air Mobility Command Common User Services**

**Instruction for the Preparation of Exhibit Fund-8  
Common User Transportation Services**

This exhibit displays the costs, revenues, NOR, and AOR of USTRANSCOM's operations, with emphasis on the explanation of item 3B, Total Airlift Readiness Revenue. The USTRANSCOM must include a narrative outlining reasons for variances greater than 20 percent for each line of Airlift Readiness Revenue from one year to the next.

For changes in Airlift Readiness Revenue, distinguish the factor(s) that cause the change (e.g., utilization factors, airlift rates set to compete with private sector rates, commercial transportation prices, aircraft maintenance prices).

Round data to the nearest tenth of a million.

**Exhibit Fund-8 Air Mobility Command Common User Services (Continued)**

**Exhibit Fund-9a, Activity Capital Investment Summary**

Line Number	Item Description	PY		CY		BY	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
	Non-ADPE Equipment - Vehicles - Materiel Handling - Installation Security - Quality Control/Testing - Medical Equipment - Machinery  ADPE & Telecom Equip Computer Hardware (Production) Computer Hardware (Network) Computer Software (Operating System) Telecommunications Other Support Equipment  Software Development List Separately Internally Developed Externally Developed  Minor Construction Capabilities - Replacement - New Construction - Environmental  <b>TOTAL OBLIGATIONS*</b>  Total Capital Outlays Total Depreciation Expense						

\*Fund 9a Summary exhibit must reconcile to the Fund 9b project justification.

**Exhibit Fund 9a Activity Capital Investment Summary**

Instructions for the Fund-9a Exhibit  
Capital Investment Summary

General - The project/line items listed for each major category are the minimum submission requirements. Projects may be added or modified to meet the specific requirements of the DWCF Activity as long as there is a corresponding Fund-9b that describes what is being purchased and the reason for the requirement. The summary item description and the project amounts on the Fund-9a must correspond to the individual Fund-9b. All Prior Year projects will be shown by line item detail cross-referenced to the corresponding Fund-9b. In addition, the ADPE and Telecommunications equipment and software development Fund-9b Exhibit line number assigned should also be used for cross-referencing within the Information Technology Exhibits as outlined in Chapter 18 of this regulation. Use the approved DWCF activity name. The four major categories for Capital Investment Programs are as follows:

- (1) Non-ADPE & Telecommunication Equipment > \$250K: Equipment, other than ADPE and Telecommunications Resources. A separate Fund-9b will be provided for each project. Each project will include cost estimates for at least the subcategories shown above (unless no equipment of that kind is purchased). Other project categories may be added.
- (2) ADPE & Telecommunications > \$250K: ADPE and Telecommunications Equipment Component will provide a Fund-9b for each of the projects listed above (unless no equipment of that kind is being purchased). Other project categories may be added. One Fund-9b narrative may address all projects under \$1,000,000 by category (e.g. "Other ADPE Support Equipment under \$1,000,000"). Items that exceed \$1,000,000 will be addressed separately in the narrative.
- (3) Software Development > \$250K
  - a. Software Development shall be shown on a separate Fund-9b by item detail for projects equal to or greater than \$1 million. All software projections must comply with DoD CIO requirements/approvals.
  - b. One Fund-9b may be submitted for software development under \$1 million that does not need DoD CIO approval. This Fund-9b may be submitted with a general statement of the enhancements that will be provided. In addition, the Fund-9bs must include a system delivery date/s. If it is a spiral development, all delivery dates and amounts to be capitalized will be included in the Fund-9bs.
- (4) Minor Construction > 250K and equal to or less than \$750K
  - a. Minor Construction may be combined into one Fund-9b as long as each project listed is below the \$750,000 threshold. The Fund-9b must contain a statement that no Minor Construction project exceeds the current MILCON threshold.

**Exhibit Fund 9a Activity Capital Investment Summary (Continued)**



b. All special categories of minor construction will be listed and justified separately (such as Navy R&D). The NDAA for FY 2012 (P.L. 112-81) rescinded the provision that minor construction may be increased to \$1,500,000 to correct a deficiency that is life-threatening, health threatening, or safety threatening.

1. Section 090103, Policy, provides specific guidelines for inclusion or exclusion of an item in the capital budget, and the necessary pre- and post-investment analysis required to substantiate a capital budget request.

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

A. Equipment, other than ADPE and Telecommunications Resources, costing \$250,000 or more will be capitalized and depreciated. Equipment should be aggregated into projects by like-types. There is no limit on the number of projects that may be used.

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

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

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

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

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

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

#### **Exhibit Fund 9a Activity Capital Investment Summary (Continued)**

(3) Software development/modernization projects will exclude CIP ADPE investments. 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 and costing from \$250,000 up to (but not including) \$750,000 (\$2,000,000 for approved DoD Laboratory Revitalization Program projects) will be capitalized and depreciated.

E. Column Entries

(1) Item Description. Enter the projects/item descriptive title of Software projects to be procured.

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

(3) 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 at least the nearest tenth (i.e., \$2.6 million).

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

G. Depreciation – For each fiscal year, show the estimated budget depreciation that will be included in customer rates for all capital assets in that year. This amount will agree with the depreciation reported on the Revenue and Expense Statement (Fund-14) and in the Depreciation Section of the Fund-1a.

**Exhibit Fund 9a Activity Capital Investment Summary (Continued)**

**Exhibit Fund-9b Activity Capital Purchase Justification**

* 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 BY		
		Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Non-ADPE & Telecom										
ADPE and Telecommunications										
Software Development (line item -- by project)										
Minor Construction										

**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 enhancement 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**

**Exhibit Fund-9b Activity 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 narrative justification in support of each [project](#)/line item detailed on the Fund-9a. A separate Fund-9b justification is required for each applicable software investments. For ADPE Telecommunication Equipment items that are equal to or greater than \$1,000,000.00, a separate Fund-9b is not required [and may be summarized into the categories displayed in the Fund-9a](#). Software projects over \$1,000,000.00 and/or that need DoD CIO approval must be line itemed with individual Fund-9bs. It is important that the Fund-9b be completed and accurate as it is the primary justification for activity's capital purchases.

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

II. Headings

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

B. Identify the applicable [DoD Component/DWCF activity](#) for the proposed capital investment. Use the approved DWCF [activity](#) name. Identify the activity that will benefit from the capital item, if possible.

C. For each [project/line](#) item (e.g., forklifts), indicate the item description contained in Exhibit Fund-9a.

D. [Project/Item Description](#). Enter a line item identification number to cross-reference the corresponding entry on the Fund-9a along with a description of the investment.

III. Column Entries

A. [Element of Cost](#). For items purchased under the [Project/Line Item](#), provide [applicable](#) subcategories (i.e., [vehicles may be broken down into cars, trucks, buses, etc.](#)). For Software provide the item, and if applicable, break into module delivery subcategories.

B. [Quantity](#). Provide the approximate number of items to be purchased under the [subcategory](#) or as applicable for software.

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

**Exhibit Fund-9b Activity Capital Purchase Justification (Continued)**

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

#### IV. Narrative Justification

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

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

**Exhibit Fund-9c Capital Budget Execution**

Department of (Component Name)

Activity: \_\_\_\_\_

FY 20\_\_

FY 20\_\_ \_\_\_\_\_ Program/Budget Submission

Major Category	(Dollars in Millions)			<u>Explanation</u>
	<u>Initial Request</u>	<u>Current Proj Cost</u>	<u>Approved Change</u>	
Non-ADPE				
ADPE and Telcom				
Software Development				
Minor Construction				
Total FY ____				

## Instructions:

Complete for each fiscal year required in the Program/Budget Submission (i.e., PY, CY, and FY preferably all on one page), summarized by major category. The “Current Projected Column” is the program approved in the current President’s Budget submission.

Initial Request. For the PY, this will be the CY column of the previous year’s President’s Budget. For the CY, this will be the BY column of the previous year’s President’s Budget. For the BY, only the “Initial Request Column” will be filled in (the BY will be displayed for comparison purposes).

Current Projected Costs. For the PY, this is the amount approved at the end of the fiscal year. For the CY, this is the amount in the current President’s budget. The delta between the Initial Request and Current Projected Costs will be displayed in the “Approved Change” column. The BY is only used for display purposes.

Explanation. Provide a brief and concise explanation why the changes needed to occur.

**Exhibit Fund-9c Capital Budget Execution**

## Exhibit Fund-11 Source of New Orders &amp; Revenue

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

	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY</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 Activities			
(List by Activity)			
c. Total DoD			
d. Other Orders:			
Other Federal Agencies			
Trust Fund			
Non Federal Agencies			
Foreign Military Sales			
Total for New Orders			
2. Carry-In Orders			
3. Total Gross Orders			
<i>Industrial Funds Activities use the following: to complete the Fund – 11</i>			
4. Revenue (-)			
5. End of Year Work-in-Process (-) (a)			
6. Foreign Military Sales, Base Realignment and Closure, Other Federal, and Non-Federal orders (-) (b)			
7. Funded Carry-over			
(a) The application of the percentage-of-completion method of revenue recognition should result in the elimination of most work-in-process. <a href="#">Please give a detailed explanation why Work In Process would not have been billed by September 30<sup>th</sup>.</a>			
(b) See exhibit <a href="#">11a</a> for a complete list of orders to be excluded.			
<i>Supply Activities use the following: to complete the Fund - 11</i>			
4. Carry-Out Orders (-)			
5. Gross Sales (-)			
6. Credit (-)			
7. Net Sales			

## Exhibit Fund-11 Source of New Orders &amp; Revenue

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

This Exhibit will identify the customers of each DWCF activity by DoD Component and the appropriation level. Be specific as to the source of funding by listing the appropriation name. 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 DWCF activity may be linked to the appropriations for goods and services.

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

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

The Total for New Orders on Line 1 must match data provided on other reconciling exhibits.

For line 2, Carry-In Orders, display the carry-in orders from prior fiscal years. For the Supply Management Activities, carry-in orders represent back orders. These are called "Unfilled Customer Orders" on the SF-133.

For line 3, Total Gross Orders, add the sum of lines 1, Total for New Orders, and line 2, Carry-In Orders.

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

Line 5, End of Year Work-in-Process, should equal orders from line 3, Total Gross Orders that will not be sold in the current year. For Supply Management Activities, this line should equal backorders.

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

**Exhibit Fund-11 Source of New Orders & Revenue**



Additional Instructions for Carryover Calculations  
for the Preparation of Exhibit Fund-11, Source of Revenue

Carryover calculation. Since the FY 2004 budget submission, the approved amount of workload carrying over to subsequent fiscal years is linked to the outlay rate of the source appropriation as published in the most recent Department of Defense Financial Summary Tables. Carryover metrics exclude non-federal, non-DoD, Foreign Military Sales, and Base Realignment and Closure related work from the carryover calculation. All DoD Components should pay close attention to their carryover amounts as reported on the SF-133 as “unfilled customer orders”. Although the carryover ceiling is used as a determination of acceptable workload for budget purposes, the actual total amount of unfinished workload is reported outside the DoD and may be evaluated by other methodologies than the approved carryover ceiling.

New Orders, less excluded workload, is the basis for the carryover ceiling calculation. The appropriate outlay rates for the customer source appropriation are applied to the applicable New Orders (Fund-11a and Fund-11b). Unless approved in writing by the Director, Revolving Funds, the outlay rates used for this calculation must come from the DoD Financial Summary Tables. The weighted outlay rate is then applied to the total new orders received to determine what portion of the workload should have been expensed in that fiscal year. The balance of the New Orders equals the allowable carryover. As an example, if the weighted outlay rate is identified at 59 percent and the total of new orders received is \$100 million, then it is reasonable to expect that \$59 million should have expensed in the current year and the remaining \$41 million, or 41 percent of the total new orders received, would be identified as the maximum allowable carryover.

The methodology applies first year outlay rates to year end levels of applicable New Orders. The metric is tailored to the workload of each business area and provides visibility into the elements of carryover. Additionally, the metric allows for an analytically based approach that holds working capital fund activities to the same standard as general fund execution and allows for more meaningful budget execution analysis.

The only two approved exceptions to the carryover calculation method that do not require a written request for exemption are the following:

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

**Exhibit Fund-11 Source of New Orders & Revenue (Continued)**

2. For Army Ordnance activities, in addition to a.1 above, the carryover calculation also includes the use of the 2nd year procurement outlay rate applicable to the source of funding. The addition of the applicable 2nd year procurement outlay rate now aligns production completion rates with the source appropriation as published in the Department of Defense Financial Summary Tables. This recognizes that multi-year appropriations often fund manufacturing or recapitalization of equipment requiring longer lead times and higher standards of repair. For the applicable 2nd year procurement outlay rate, a weighted outlay rate, which includes the sum of the 1st and 2nd year rates, is applied to the new orders from the previous year to determine what portion of the workload should have been expensed in that fiscal year and what percentage is allowable carryover. The example in paragraph b. still applies with the exception that two different weighted outlay rates will now be used to calculate the allowable carryover (one for prior year Ordnance procurement workload and one for all other appropriations).

Requests for exceptions to permit depot maintenance activities to carryover amounts greater than the current methodology must be accompanied by concurrence from the OUSD (AT&L) and submitted to Director, Revolving Funds, separately from the budget documents. The requestor must demonstrate the exceptions can be accomplished without production delays and present the planned monthly execution of the carryover workload. Disapproved carryover requests will be referred to the Operations or Investment Directorates for possible budgetary adjustments.

The reporting of carryover will be accomplished on the Fund 11-a exhibit, Carryover Reconciliation. The Fund-11b exhibit, Carryover Outlay Calculation, displays and reconciles the detail of the Fund-11a exhibit by providing revenue and customer orders by fiscal year, appropriation, outlay rate and the calculation for the weighted average outlay rate for that particular fiscal year. Activities whose actual carryover balance exceeds the computed allowable carryover in any year are required to provide written justification as part of the budget submission.

#### **Exhibit Fund-11 Source of New Orders & Revenue (Continued)**

**Exhibit Fund-11a Carryover Reconciliation**

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

**FY PY    FY CY    FY BY**

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**Part I.**

1. Net Carry-In
2. Revenue
3. New Orders
4. Exclusions:
  - FMS
  - BRAC
  - Other Federal Departments & Agencies
  - Non-Federal and Others
  - Institutional MRTFB (Navy R&D only)
  - Other Specifically Approved Exclusions
5. Orders for Carryover Calculation
6. Weighted Average Outlay Rate \*
7. Carryover Rate
8. Allowable Carryover

**Part II.**

9. Balance of Customer Orders at Yearend
10. Work-in-Progress (provide justification)
11. Exclusions:
  - FMS
  - BRAC
  - Other Federal Departments & Agencies
  - Non-Federal and Others
  - Institutional MRTFB (Navy R&D only)
  - Other Specifically Approved Exclusions
12. Calculated Actual Carryover

**Exhibit Fund-11a Carryover Reconciliation**

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

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

- Line 1** (Net Carry-In) displays carry-in orders from prior years. (Carry-in orders must agree with Year End Financial statements)
- Line 2** (Revenue) must match data provided in the Fund 14, Revenue and Costs.
- Line 3** (New Orders) must match data in the Fund 11, Source of Revenue, and OP-32, Operation & Maintenance, exhibits (net of reductions or cancellations made during the FY).
- Line 4** (Exclusions) displays carry-in and new orders associated with the excluded appropriations (Foreign Military Sales (FMS); Base Realignment and Closure (BRAC); Other Federal Departments & Agencies; Non-Federal and Others; and Institutional Major Range & Test Facilities Base (MRTFB)). [This also includes any and all exemptions approved in writing by the Director, Revolving Funds.](#)
- Line 5** (Orders for Carryover Calculation) equals line 3 less line 4. Supporting schedules for this calculation must also be provided in your Budget submission.
- Line 6** (Weighted [Average](#) Outlay Rate) is calculated by applying appropriation unique outlay rates to identified carryover workload. [Supporting documentation is provided on the Fund-11b.](#)
- Line 7** (Carryover Rate) [as stated on the Fund-11b, Carryover Outlay Calculation.](#)
- Line 8** (Allowable Carryover) equals line 5 (Orders for Carryover Calculation) multiplied by line 7 (Carryover Rate). This is the maximum allowable carryover for the activity. [This number should match the Fund-11b.](#)
- Line 9** (Balance of Customer Orders at Yearend) equals the balance of customer orders at year end before exclusions (calculation = line 1 (net carry-in) plus line 3 (new orders) minus line 2 (revenue)).
- Line 10** (Work-in-Progress) equals the amount of customer work which has been performed, but not yet billed.
- Line 11** (Exclusions) displays carry-in and new orders associated with the excluded appropriations (FMS, BRAC, Other Federal, Non-Federal and Others, and Institutional MRTFB). [This also includes any and all exemptions approved in writing by the Director, Revolving Funds.](#)
- Line 12** (Calculated Actual Carryover) equals line 9 minus lines 10 and 11. This data becomes the net carry-in value used in the following year calculation [and should match the Fund-11b](#)

The exhibit is required at the DWCF [activity](#) level (Navy Research and Development activities [submit an aggregate for the President's Budget](#)). The Navy R&D submission is required at the field activity level. The Army must report its Industrial Operations Activity by Depot and Ordnance components.

**Exhibit Fund 11a Carryover Reconciliation (Continued)**

**Exhibit Fund-11b Carryover Ceiling Calculation**

**FOR DEPOT MAINTENANCE BUSINESS AREAS ONLY**

Activity: \_\_\_\_\_

FY \_\_ (Provide for CY and BY)

Carry-in Orders (\$ M)	Proposed New Orders (\$M)	Gross Orders Accepted (\$M)	Revenue (\$ M)	Proposed Carry-out (\$ M)	Approved Outlay Rate	Carryover Ceiling	Difference
------------------------------	------------------------------------	--------------------------------------	-------------------	---------------------------------	----------------------------	----------------------	------------

**Funding Source**

**Military Service**

(List customers by appropriation, fund, or other sources.)

**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**

**Carryover Percentage**      **Ceiling**

**Weighted Outlay Rate**      **Average**

**Exhibit Fund-11b Carryover Ceiling Calculation**

Instructions for Completing the Fund-11b, Carryover Ceiling Calculation

This exhibit provides backup for the Fund-11a, Allowable Carryover Calculation, published in the President's Budget. Separate fiscal year exhibits are required for the current year and budget year.

A breakdown is provided by DoD Component and appropriation of the Fund-11, Source of Revenue, and line items for Carry-in orders, New Orders, Gross Orders, Revenue and Carry-out orders and should reconcile to the corresponding totals on the Fund-11 and Fund-11a exhibits. Orders exempt from the weighted average outlay method for Carryout are not displayed on this exhibit since they are provided on the Fund-11a. This includes any and all exemptions approved in writing by the Director, Revolving Funds.

The approved appropriation outlay rates can be found in the Department of Defense Financial Summary Tables.

Army Ordnance activities are allowed a second year outyear rate for determining the carryover ceiling. This calculation should be displayed on a separate line attributable only to Carry-in orders.

Carryover Ceiling.  $(1 - \text{Outlay Rate}) \times \text{New Orders}$ .

Difference. Carryover Ceiling – Proposed Carryout.

Carryover Ceiling Percentage. Total Carryover Ceiling divided by New Orders.

Weighted Average Outlay Rate.  $1 - \text{Carryover Ceiling Rate}$ .

**Exhibit Fund-11b Carryover Ceiling Calculation**

**Exhibit Fund-13 Cash Management Plan**

**CASH MANAGEMENT PLAN**

**Component:**

**Activity:**

**(Dollars in Millions)**

<b>Incremental</b>	Fiscal Year: _____							
	<b>Cumulative</b>	Operations			Financing		Appropriation	Total Net Outlays
Disbursements		Collections	Net Outlays	Transfers Out	Transfers In			
Balances:								
October								
November								
December								
January								
February								
March								
April								
May								
June								
July								
August								
September								

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

Cash balance at the Beginning of the FY (+/-) Total Net Outlays = Cash Balance End of the FY.

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

**Exhibit Fund-13 Cash Management Plan**

## Exhibit Fund-14 Revenue and Expenses

**DEFENSE WORKING CAPITAL FUND  
COMPONENT/ACTIVITY  
REVENUE AND COSTS**

	(Dollars in Millions)			<i>Do not print this column</i>
	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY</u>	<i>Note</i>
<b>Revenue</b>				
Gross Sales	125.0			A
Operations	110.0			
Capital Surcharge	5.0			B
Depreciation	10.0			
Other Income	6.0			C
Refunds/Discounts (-)	-25.0			
<b>Total Income</b>	<b>106.0</b>			
<b>Costs</b>				
Cost of Material Sold from Inventory	65.0			D
Salaries & Wages	10.0			
Military Personnel Compensation & Benefits	2.0			
Civilian Personnel Compensation & Benefits	8.0			
Travel & Transportation of Personnel	5.0			
Materials & Supplies for internal operations	1.0			
Equipment	2.0			
Other Purchases from Revolving Funds	1.0			
Transportation of Things	5.0			
Depreciation - Capital	10.0			E
Printing & Reproduction	0.5			
Advisory & Assistance Services	0.5			
Rent, Communication, Utilities & Misc Charges	2.0			
Other Purchased Services	1.0			
<b>Total Expenses</b>	<b>103.0</b>			
<b>Operating Result</b>	<b>3.0</b>			F
Adjustments affecting NOR (specify)	-5.0			G
Capital Surcharge	-5.0			
<b>Net Operating Result</b>	<b>-2.0</b>			H
PY AOR	2.0			
<b>Total AOR</b>	<b>0.0</b>			
Non-Recoverable Adjustments impacting AOR	-1.0			
AOR for budget purposes	-1.0			

## Exhibit Fund-14 Revenue and Expenses



Instructions for Statement of Revenue and **Costs**  
Keyed to Statement Footnotes

Note: Information on this exhibit should reconcile to other exhibits that display Revenue and Costs (Fund-7, Customer Rate Computations; SM-5a, OP-32 Price Change; Fund-11, Source of Revenue; Fund-1/1a, Summary/Details of Price, Program, and Other Changes).

A. For supply management activities, the line should reflect **Gross** sales. Credit returns should be displayed in the Refunds/Discounts line.

B. Capital Surcharge represents the increase in prices (and projected revenue) due to surcharging the capital budget requirement to provide sufficient cash to support the capital budget. This line is blank if a capital surcharge is not included in price (also see note F).

C. Other income is to include pass-through revenue **such as direct reimbursables**.

D. Cost of material sold from inventory includes the **moving average cost** value of material sold from inventory and the cost of repair. Both wholesale and retail costs should be included.

E. Depreciation reflects the estimated depreciation of all assets defined by the capital program **in terms of recoupment of outlays**.

F. This represents the “gross” result from operations, prior to adjustments.

G. Includes all “Other Adjustments” to NOR; multiple lines may be used. For example, Capital Surcharge reservation here should offset capital surcharge in revenue. Include any appropriations realized to offset current period **costs** (e.g., pass-through appropriations to cover underutilized plant capacity). Appropriations for war reserve material do not offset current period expenses, do not affect NOR, and should be subtracted if reported as part of revenue or be reported as an adjustment below NOR. This includes:

- (1) Transfers to correct for prior period over- or under-pricing;
- (2) Other approved transfers for collections from customers for which an expense has not been recorded;
- (3) Other collections (that are not transferred out, but placed in some sort of reserve) from customers for which an expense has not been recorded; or,
- (4) Unfunded expenses resulting from a policy change, which must be deleted prior to determining NOR.
- (5) Changes in Work-in-Process or Inventory for Activity Retention.

**Exhibit Fund-14 Revenue and Expenses (Continued)**

H. The Net Operating Result (NOR) is the fiscal year gain or loss from operations. The NOR will be carried into Accumulated Operating Results (inception to date) in the equity portion of the balance sheet. NOR and AOR are key performance indicators.

The Cost of Goods Sold for Supply Activities and Depreciation for all DWCF activities do not represent required budgetary resources for inventory and the CIP. At the discretion of the Supply Activity, the COGS on the Fund-14 may represent Total Materiel Costs on the SM-5a, Mark-up on Material Cost, or Materiel Costs without inflation. Materiel Inflation and the Materiel Cost Adjustment may be shown as an operating adjustment (if preferred) labeled Inventory Retention. In either case, the final NOR should be the same.

**Exhibit Fund-14 Revenue and Expenses (Continued)**

Exhibit Fund-15 Fuel Data

FY BUDGET FUEL DATA	PROCURED FROM DLA ENERGY			PROCURED BY SERVICE			DATE
PRODUCT	BARRELS (millions)	COST PER BARREL (\$)	EXTENDED PRICE (\$M)	BARRELS (millions)	COST PER BARREL (\$)	EXTENDED PRICE (\$M)	STABILIZED PRICE
<b>TOTAL</b>							

Exhibit Fund-15 Fuel Data

## Instructions for the Preparation of Exhibit Fund-15 Fuel Data

The purpose of Fund-15, Fuel Data, exhibit is to provide reconciliation between the supply management, the Defense Logistics Agency, and the customer budgets. Prepare the Fund-15 exhibit for the prior year actual, current year, and budget year(s). The Defense [Logistics Agency](#) will prepare the exhibits for [both petroleum and aerospace fuel products](#). Prepare the exhibit for each division that procures [petroleum fuel products](#) 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 display results in tenths of a million.
4. Product. List by product.
5. Stabilized Price. Show current approved stabilized price.

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

Exhibit Fund-15 Fuel Data

**Exhibit Fund-16 Material Inventory Data****DEFENSE WORKING CAPITAL FUND  
COMPONENT/DWCF ACTIVITY:****MATERIAL INVENTORY DATA****(Dollars in Millions)  
FISCAL YEAR**

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

Material Inventory Beginning of Period

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 End of Period

Material inventory for the purposes of this exhibit is inventory that will be consumed in production to complete a finished product (i.e., bolts, screws, clamps, metal plates, etc.). It does not include operating materials such as pens, pencils, paper, staples and toner cartridges.

Complete one exhibit for each fiscal year (i.e., PY, CY, and BY) for the non-supply activities (i.e., depot maintenance, etc.). Inventory pricing will be based on current policy on inventory valuation.

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

**Exhibit Fund-16 Material Inventory Data**

**Exhibit Fund-19 Military Personnel Strength****Military Personnel  
By Average Strength**

Service or Agency: \_\_\_\_\_

Activity: \_\_\_\_\_

**Personnel Summary:**

	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY</u>	<u>Change CY/BY</u>
<b>Active Military Average Strength</b>				
Army				
Officer				
Enlisted				
Navy				
Officer				
Enlisted				
Marine Corps				
Officer				
Enlisted				
Air Force				
Officer				
Enlisted				
Total Active Military Average Strength				

**Instructions:** For each fiscal year, show the average strength of active military personnel, including those participating in the Personnel Force Innovation program, performing work for the Working Capital Fund. Display the increase or decrease in average strength from the current year to the budget year in the “Change CY/BY” column.

**Exhibit Fund-19 Military Personnel Strength**

**Exhibit Fund-22 Summary of Base Support**

DEPARTMENT OF (COMPONENT NAME)

Activity: \_\_\_\_\_

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

	<u>FY PY</u>	<u>FY CY</u>	<u>FY BY</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			
<b>TOTAL</b>			

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

**Exhibit Fund-22 Summary of Base Support**

**Exhibit Fund-24 Summary of Personnel Data**

**DEPARTMENT OF (COMPONENT NAME)**  
**ACTIVITY: \_\_\_\_\_**

**Summary of Civilian Personnel Data - Part I**

**FY PY    FY CY    FY BY**

Direct Labor:

Regular Hours  
 Paid Leave Hours  
 Overtime Hours  
 Total Hours

Show civilian personnel data in hours,  
 Compute FTEs by dividing the applicable total  
 number of hours by the number of hours in a  
 work year.

FTEs

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.

Indirect Production:

Regular Hours  
 Paid Leave Hours  
 Overtime Hours  
 Total Hours

Show the number of hours per FTE used to  
 convert hours to FTEs for each fiscal year.

FTEs

General & Administrative (G&A):

Regular Hours  
 Paid Leave Hours  
 Overtime Hours  
 Total Hours

Full-time Equivalencies (FTEs)

Total:

Regular Hours  
 Paid Leave Hours  
 Overtime Hours  
 Total Hours

Total FTEs:

Percent Direct Labor  
 Percent Production Overhead  
 Percent G&A Labor  
 Percent Production Overhead  
 and General and Administrative

Hours per FTE

**Exhibit Fund-24 Summary of Personnel Data**



**Exhibit Fund-26 Revenue and Expense Phasing Plan**

**Revenue and Expense Phasing Plan**

**Component:** \_\_\_\_\_

**Activity:** \_\_\_\_\_

**FY** \_\_\_\_\_

**(Dollars in Millions)**

**Monthly Plan**

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

Instructions: Provide a monthly and cumulative phasing of revenue, costs, and operating results (NOR and AOR) for all years. [The September NOR and AOR must reconcile to the Fund-14, Revenue and Cost exhibit.](#)

**Cumulative Plan by Month**

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

Submit Excel workbook (by activity including total fund roll up) to OUSD (C) Revolving Fund Directorate. Provide Specify type and amount of each proposed adjustment.

**Exhibit Fund-26 Revenue and Expense Phasing Plan**

Exhibit Fund-28 Execution Performance Analysis

EXECUTION PERFORMANCE ANALYSIS

Quarter: \_\_\_\_\_  
Page X of Y

(Component and Activity Name)

PERFORMANCE MEASURES	First Quarter Actual	Annual Plan	Projected End of Year	Projected Variance
----------------------	----------------------	-------------	-----------------------	--------------------

UNIT COST (\$)

TOTAL NEW ORDERS RECEIVED: Actual through quarter and end-of-fiscal year projection only.

ACCUMULATED OPERATING RESULTS: Actual through quarter and end-of-year projection. For all activities, including Supply, provide the reconciliation between December’s AOR reported on the 1307 report and the amount you use for budget purposes.

NOR (\$M)

-----

Revenue (\$M)

Costs (\$M)

OUTLAYS

-----

Collections

Disbursements

CASH BALANCE WITH TREASURY: Actual through quarter and estimated end-of-year projection.

Accounts Receivable

Total Unliquidated Advance Billings  
(Liability)

ANALYSIS and RECOMMENDED ACTIONS  
YEAREND PROJECTIONS AND ASSUMPTIONS

Exhibit Fund-28 Execution Performance Analysis

Exhibit Fund-28 Execution Performance Analysis (Continued)

EXECUTION PERFORMANCE ANALYSIS

Quarter: \_\_\_\_\_  
Page X of Y

(Component and Activity Name)

MILITARY AND CIVILIAN PERSONNEL DATA

END STRENGTH  
PLAN      ACTUAL

WORK YEARS (FTE's)  
PLAN      ACTUAL

As of 9/30/PY  
As of 12/31/CY  
Projected 9/30/CY

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

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

ATTRITION RATE (Plan vs. Actual)

Total Direct Labor Hours Worked: Not required for Supply, DeCA, DISA, or USTRANSCOM Business Areas.

**Regular Direct Labor Hours**  
**Overtime Direct Labor Hours**

CAPITAL INVESTMENT PROGRAM OBLIGATIONS and OUTLAYS: FY to date and end-of-year projection only.  
ANALYSIS and RECOMMENDED CORRECTIVE ACTIONS:

Exhibit Fund-28 Execution Performance Analysis (Continued)

Instructions for the Preparation of Exhibit Fund-28  
Execution Performance Analysis

The OUSD(C) P/B Revolving Fund Directorate conducts first, second, and third quarter Budget Execution Reviews (BERs) each fiscal year for the Defense Working Capital Funds (DWCF) and the Pentagon Reservation Maintenance Revolving Fund/Buildings Maintenance Fund (PRMRF/BMF). Each Component is required to complete the Fund-28, Execution Performance Analysis, for each of their business areas and is expected to be prepared to discuss, by separate business areas, the BER Discussion Topics. An official BER announcement memorandum is sent out each of the three quarters with instructions, suspense dates, and any changes to the list.

Each business area within the Component will report on its implementation of financial, contractor and manpower targets as directed by the Secretary, to include execution to the report date and yearend projections. Components should also identify areas of concern and newly identified opportunities to reduce costs and or enhance operations without increasing costs.

### **BER DISCUSSION TOPICS**

1. The FY CY phasing plans for cash and net operating results found in the FY BY President's Budget.
2. Impact of the Overseas Contingency Operations on current workload, cash, carryover, and operating results.
3. Variances to Revenues, Expenses, Collections, and Disbursements, if the actual amount reported for December/March/June FY CY is outside the applicable range: (20 to 30 percent for first quarter; 45 to 55 percent for second quarter; 70 to 80 percent for third quarter) of the annual total.
4. In addition to the AR 1307 information, include a status of obligations incurred against accepted customer orders in accordance with the SF-133 for each activity.
5. Prior Year Adjustments and/or current year Deferred Operating Results of \$1 million or more reported on the AR 1307 Report as of the applicable date: December 31 for first quarter; March 31 for second quarter; June 30 for third quarter.
6. Plans to control cash outlays for FY CY.
7. Actions taken to date to obtain Investment Review Board approval for financial and mixed financial systems requested in FY PY and FY CY along with current obligations. Discuss the status of certifications for IT systems.
8. Impact of the FY 2005 BRAC decisions on operations.
9. Material changes in personnel levels and salary estimates.
10. An update on progress of the FY BY+1 budget build, workload, rates, and verification of customer workload with customers.
11. The respective Revolving Funds analyst will provide additional topics, if any.

**For Supply Business Areas, provide the following additional information:**

12. First/second/third quarter actual and end of year estimates for material obligated, outlays for material purchases, material repair costs, material returns for credit and non-credit, and material sent to disposal.

### **Exhibit Fund-28 Execution Performance Analysis**

13. Anticipated changes to backorders by yearend.
14. Updated plan for converting inventory values to moving average cost.
15. Updated Readiness Indicators (MC rate, TNMCS, Quality Deficiencies, etc.).
16. Reconciliation of the differences between NOR and AOR reported on the quarterly AR-1307 report and internal budget execution reports.
17. Projected inventory levels and plans to hold inventory growth.

**For Depot Maintenance and Ordnance Activities, provide the following additional information:**

18. For each major product line (Aircraft, Engines, Tanks, Humvees, etc.), provide the number of units in-process on October 1, FY CY, the number of units inducted, the number of units completed, and the number of units scrapped for the period from the beginning of the fiscal year to the end of the reporting quarter.
19. For comparison purposes, provide the total number of units completed for all of FY PY.
20. For the units completed first/second/third quarter, provide the total cost incurred to complete the units. This will include prior year costs in many cases.
21. Of the units completed, identify how many were done on a fixed price and how many on a cost reimbursable basis.
22. Estimate of whether the units were completed at a profit or a loss. Provide an estimated total profit or loss for all units completed.
23. Provide the amount of carryover attributable to parts shortages and what actions are being taken to reduce this carryover.

**Exhibit Fund 30 – Underutilized Plant Capacity****Unutilized and Underutilized Plant Capacity (UPC)  
Industrial Mobilization Capacity (IMC)**

Component: \_\_\_\_\_

ACTIVITY: \_\_\_\_\_ DATE: \_\_\_\_\_

(\$ in Millions)

FY PY      FY CY      FY BY

## 1 Ammunition Storage

- A. Required Maximum Containers
  - B. Number of Funded Containers
  - C. Non-Utilization Rate (1-B/A)
  - D. Applicable Overhead
  - E. Funding Requirement (C\*D)
  - F. Funded

## 2 Ammunition Production

- A. Total Number of Production Lines
- B. Total Square Footage of all Production Lines
- C. Unutilized Production Lines (20% or less)
- D. Total Square Footage of Unutilized Production Lines
- E. Percent of Unutilized Square Footage (D/B)
- F. Applicable Overhead Costs
- G. Allowable Overhead Costs (E\*F)
- H. Percent of Unutilized Production Lines (C/A)
- I. Funding Requirement (G\*H)
- J. Funded

## 3 Maintenance Facilities

- A. Total Number of Work Stations
- B. Unutilized Work Stations (20% or less)
- C. Non-Utilization Rate (B/A)
- D. Applicable Overhead
- E. Funding Requirement (C\*D)
- F. Funded

## 4 Manufacturing Facilities

- A. Total Number of Work Stations
- B. Unutilized Work Stations (20% or less)
- C. Non-Utilization Rate (B/A)
- D. Applicable Overhead
- E. Funding Requirement (C\*D)
- F. Funded

## 5 Real Property Maintenance

## 6 Equipment Maintenance

## 7 Utilities

## 8 Other (specify)

**TOTAL****Exhibit Fund 30 – Underutilized Plant Capacity**

Instructions for the Preparation of Exhibit Fund-30  
Unutilized and Underutilized Plant Capacity (UPC)

**PART I.**

The purpose of this exhibit is to **determine** capacity indices and mobilization funding requirements for DWCF industrial activities. Unutilized (Reserve), Underutilized Plant Capacity and Industrial Mobilization Capacity costs should be excluded from the DWCF rate structure. **Overburdening the customer for costs associated with idle expansion capability is not a fair reflection of operating costs associated with workload. In many cases, these costs must be incurred by a federal facility where the private sector can choose to downsize its operations.**

Appropriated funding supports equipment that is utilized 20 percent or less of capacity (hereafter referred to as “unutilized”) and has a requirement to support surge and/or replenishment. It is not excess capacity; it is necessary to support core industrial maintenance requirements.

This exhibit **may** apply to all industrial activities (mostly Depots and Ordnance activities) whether or not the respective Service is identifying UPC funding as part of the topline **submission** in the Operation and Maintenance (O&M) budget submission. Thus, at a minimum, the capacity-related indices for items numbered one through three **should** be completed for each industrial activity.

There are four types of facilities that may qualify:

1. Ammunition Storage
2. Ammunition Production
3. Maintenance
4. Manufacturing

Each qualifying facility must be identified and listed separately.

**PART II.**

For each activity with an amount in the Funded UPC (i.e., 1.F., 2.J., 3.F., 4.F.) category identified in the exhibit Fund 30 format, the following is required:

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

**Exhibit Fund 30 – Underutilized Plant Capacity (Continued)**