

VOLUME 3, CHAPTER 19: “DEFENSE WORKING CAPITAL FUND”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also 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 October 2008 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
2.1 (190201)	Identified that this policy is applicable to other revolving funds.	Update
2.2 (190202)	Identification of sub-accounts and DWCF activities.	Update
2.3 (190203)	Clarified language used in previous version.	Update
2.4 (190204)	Clarified the terms “Customer Orders” and “DWCF Reimbursable Authority”.	Update
2.5 (190205)	Clarified and provided explanation of the terms “Obligation Authority” and “Budgetary Resource”. Clarified de-obligation of contract authority.	Update
2.6 (190206)	Further clarification of antideficiency limitations.	Update
2.7 (190207)	Further clarification of the difference between Assets and Budgetary Resources.	Revised
3.1 (190301)	Updated and provided form names and examples.	Update
3.2 (190302)	Further clarification of Contract Authority.	Update
3.3 (190303)	Incorporated language from Volume 11B Chapter 1.	Update
3.4 (190304)	Clarification of the use of budgetary resources.	Update
3.5 (190305)	Clarified the use of the SF-133.	Revised
3.6 (190306)	Additional clarification provided on depreciation.	Revised

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CHAPTER 19

DEFENSE WORKING CAPITAL FUND

1.0 GENERAL PROVISIONS (1901)

This chapter provides the policies and procedures to guide budget execution for the Defense Working Capital Fund and other revolving funds where applicable.

2.0 BACKGROUND (1902)

*2.1 Policy (190201)

This guidance is applicable to the Defense Working Capital Fund (DWCF), which includes the five DoD Component Working Capital Funds (WCF) (DWCF sub-account) and all individual DWCF activities within these accounts. In addition, this chapter provides guidance for the Commissary Trust Fund, National Defense Stockpile Fund, Pentagon Renovation Maintenance Revolving Fund, and Building Maintenance Fund where applicable.

*2.2 Defense Working Capital Fund (190202)

2.2.1. Organization. The DWCF is established under the authority of Title 10, United States Code (U.S.C.), Section 2208. The Treasury Account Symbol for the DWCF is 97X4930. The Military Departments and Defense Agencies sub-numbered account identifiers are shown in the below table.

<u>DoD Component</u>	<u>Treasury Assigned Account No.</u>
Army	97X4930.001
Navy	97X4930.002
Air Force	97X4930.003
Defense Commissary Agency (DeCA)	97X4930.004
Defense Agencies	97X4930.005

2.2.2. DWCF Activities. The DWCF consists of individual DWCF Activities that are managed by DoD Components for providing goods and services to other DoD activities and to non-DoD activities when authorized. As of the publication date, the DWCF activities in each sub-account are:

Army	Supply; Industrial Operations.
Navy	Navy Supply; United States Marine Corp (USMC) Supply; Fleet Readiness Centers (Aviation Depots); USMC Depot Maintenance; Base Operations; Transportation; Research and Development.
Air Force	Supply, Depot Maintenance and U.S. Transportation Command.
DeCA	Resale Stocks; Operations.
Defense	Defense Logistics Agency; Defense Information Systems Agency; Defense Finance and Accounting Service.

2.2.3. Authorized Customers. Customers of the DWCF activity may be:

2.2.3.1. Any DoD command, organization, office, or other element.

2.2.3.2. Non-DoD federal government agencies.

2.2.3.3. Private parties and concerns when authorized by law, including foreign governments, and state and local governments.

2.2.3.4. Those United States manufacturers, assemblers, or developers authorized by Title 10, U.S.C., Section 2208(h) and in accordance with Title 10, U.S.C., Section 2563 and Section 4543.

2.2.4. Direct Appropriations. Direct appropriations (e.g. Procurement, Operation & Maintenance) may be used to start or fund readiness costs not related to the specific DWCF activity operating mission. Direct appropriations may also be used to increase the size of or replace significant losses in a DWCF activity. Existing resources in other accounts may be transferred to a working capital fund as capitalized assets to serve these same purposes in lieu of an appropriation.

2.2.4.1. Resources used to establish or increase the size of a working capital fund are commonly referred to as “the corpus (total investment) of DWCF.” (This is not the same as the “cash corpus” financial metric. See Volume 2B, Chapter 9, Section 090103 for DWCF cash policy.) The corpus (or total investment) is the sum of all resources used to acquire the items needed to perform the working capital fund’s mission. Financial resources to replenish the initial working capital and permit continuing operations are generated by the acceptance of customer orders.

2.2.4.2. Direct appropriations may be provided to DWCF activities for specific purposes such as war reserve materiel, overseas contingency operations, and expanded inventory requirements, or other purposes as approved by the Director, Revolving Funds. The receipt of the appropriation provides an immediate infusion of cash to the Fund Balance with Treasury (FBWT) and the appropriation amount used must be accounted for and reflected on accounting records ((AR) 1307) and budgetary reports (SF-133). The amount of the appropriation does not impact the cumulative results of operations. However, it does increase budgetary resources and the sub-account FBWT and is factored into unobligated budgetary resources brought forward from previous fiscal years. In other words, direct appropriations may be available for obligation in subsequent fiscal years.

*2.3 Revenues (190203)

The DWCF generates revenues predominantly from appropriations used by federal agencies to purchase goods or services. The DWCF uses the revenue collected from these “customers” to pay for the resources required to produce the specific goods or service documented on the customer order. That is, the DWCF uses resources from funded customer orders to replenish its corpus for resources expended to fulfill those customer orders.

*2.4 Customer Orders (190204)

Customer orders (funded requests for goods or services) provide budgetary resources necessary to finance operations for non-supply management activities, and to liquidate contract authority. Budgetary resources are recognized from customer orders that obligate budgetary resources of another federal government activity, and from cash advances from non-federal customers, to include orders from non-appropriated fund instrumentalities.

2.4.1. Customers must comply with statutory limitations and restrictions imposed on the appropriated funds charged when placing an order with the DWCF. A DWCF customer cannot use appropriated funds to do indirectly (i.e., through placement of an order with a DWCF activity) that which it is not permitted to do directly. Thus, the availability of an appropriation funding an order cannot be expanded or changed by placement with an activity financed by the DWCF.

2.4.2. Appropriated funds cited on reimbursable orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The ordering activity retains primary responsibility for determining the applicability of the appropriated funds cited on the order. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the DWCF activity should return the order with a request for an applicable appropriation cite.

2.4.3. The Office of Management and Budget (OMB) circular A-11 does not restrict collections from federal sources in advance of the performance of customer orders. However, Title 10, U.S.C. Section 2208 restricts cash advances to the DWCF from federal government activities to \$1 billion and only when operating resources significantly fall below outlay requirements. See Volume 2B, Chapter 9, paragraph 090103.

*2.5 Obligation authority (190205)

Obligation authority is the authority to incur costs, on behalf of the federal government, that will result in a disbursement from the FBWT.

2.5.1. The OMB apportions authority to obligate to the OUSD(C) on an SF-132 “Apportionment and Reapportionment Schedule.” The authority to incur obligations is limited to the amount of authority approved for obligation during the budget review as amended by events during the year of execution. The OUSD(C) Revolving Funds Directorate prepares and submits the SF-132 to the OMB for approval of annual obligation authority required for operating a revolving fund. The approved apportionment restricts the authority to occur obligations and is the source document for the Annual Operating Budget (AOB) issued by OUSD(C) Revolving Funds. Budgetary resources available for apportionment include:

2.5.1.1. New budget authority (direct appropriations).

2.5.1.2. Unobligated balances brought forward (i.e., unfilled customer orders).

2.5.1.3. Spending authority from offsetting collections (i.e., Reimbursements for

goods and services provided and/or other income).

2.5.1.4. Recoveries of prior year obligations.

2.5.1.5. Restorations.

2.5.1.6. Contract authority.

2.5.2. When an activity receives budgetary resources from more than one source (spending authority from offsetting collections, direct appropriation, contract authority), the receiving activity must maintain records that will enable it to control and report separately the transactions relating to each type of source (per OMB Circular A-11). Budgetary resources may be received at any level of an organization from the individual activity up to the Departmental level.

2.5.3. Federal customer orders and cash advances generate spending authority from offsetting collections (Reimbursable Authority). These budgetary resources are apportioned from the OMB to DWCF non-supply management activities for operating costs. The acceptance of a customer order requires that the performing entity agree in writing to perform the work for the customer entity.

2.5.3.1. The apportionment of reimbursable authority applies to DWCF (97X4930) non-supply activities and all other DoD Revolving Funds.

2.5.3.2. The apportionment of reimbursable authority is considered “anticipated” and a DWCF non-supply management activity may not obligate more than the total amount of orders received from Federal entities plus advances received for orders from authorized entities external to the Federal government (i.e. state, local, and foreign governments). Specific authorization to obligate above orders received and cash advances may be approved by a signed annual operating budget (AOB) if other resources are available at the DWCF sub-account level. A DWCF activity should not obligate above all resources available to that specific entity without prior approval of the Director, Revolving Funds, to ensure that budgetary resources are available at the sub-account level.

2.5.3.3. The anticipated reimbursable program authority does not provide obligation authority; therefore, a non-supply activity should not obligate more than what has been accepted in customer orders and other financing resources available. Recording anticipated reimbursable program authority only documents that reimbursable orders will be accepted. The accepted reimbursable order provides obligation authority. The total amount of anticipated reimbursable authority is recorded on the AOB for reconciling purposes.

2.5.3.4. The AOB does not restrict the amount of reimbursable orders that can be accepted. Reimbursable orders may exceed the anticipated amount without recording a negative anticipated order on the SF-133. Activities should request a new AOB when customer orders in the year of execution are expected to exceed the anticipated amount or obligations are expected to exceed the current authorization.

2.5.4. Contract authority is the legal authority to enter into contracts and incur obligations *before* budgetary resources are available. With respect to DWCF budget execution, contract authority is only used in supply management operations and capital investment programs. Contract authority must be apportioned. For supply management operations, if reimbursements from offsetting collections exceed apportioned contract authority, the difference cannot be obligated unless additional contract authority is issued by OMB because such operations are not provided automatically apportioned reimbursable authority. This may be characterized as either an unapportioned balance of a revolving fund or a restrictive withholding. The unapportioned balance preserves a portion of the fund's capital so it may continue to revolve or represents those resources not scheduled for obligation within a fiscal year. Prior year de-obligations of contract authority are automatically re-apportioned to the DWCF in the current year. Prior year de-obligation of contract authority used for a capital investment program (CIP) may only be used to cover additional costs in programs for that specific fiscal year and may not be used to cover additional current year costs unless approved in writing by the Director, Revolving Funds.

*2.6 Antideficiency Act (190206)

The incurring of obligations (or authorizing the incurrence of obligations) in excess of apportioned budgetary resources and other financing resources must be reported as a potential violation of the Antideficiency Act, as required by Volume 14. This requirement applies whether or not a revolving fund activity has unapportioned budgetary resources or nonbudgetary assets (e.g. inventory) greater than the amount of the deficiency.

2.6.1. Commitments for goods or services to be obligated in the following year may be incurred in excess of apportioned budgetary resources only if obligations are not incurred in excess of apportioned budgetary resources. There is no restriction on commitment amounts for DoD revolving fund activities.

2.6.2. The AOB also includes administrative restrictions on the use of obligation authority specific to that activity's operation.

*2.7 Assets (190207)

Physical assets such as inventories or buildings and equipment are not considered budgetary resources because they do not provide a direct monetary source for outlays that liquidate budgetary transactions (obligations). Such assets, therefore, do not increase the amount of obligation authority available when calculating unobligated balances.

2.7.1. Changes in inventory valuation and unexpected gains in inventory (such as items being found on an installation) do not generate budgetary resources but are currently accounted for in the Net Operating Result (NOR) on the (AR) 1307 report. The NOR for budget purposes must reconcile budgetary resources and claims against those resources (obligations).

2.7.2. Unobligated balances are the net of total budgetary resources (Customer Orders and apportioned Contract Authority) less claims against budgetary resources (Accounts Payable and Undelivered Orders). This is not the same as the "Net Position" or "Equity" calculation in financial

accounting (total assets less total liabilities). In other words, the available budgetary resources for obligation are equal to the difference between budgetary resources and any claims against these budgetary resources, plus any financing resources (such as unencumbered cash balances). Obligations for the procurement of inventories and the CIP must be recognized, recorded, and reported even if they may be expensed in a subsequent fiscal year.

3.0 EXECUTION REQUIREMENTS (1903)

*3.1 SF-132 Apportionment (190301)

The SF-132 provides the legal authority to incur obligations against the receipt of customer orders or contract authority in anticipation of receipt of customer orders. The OUSD(C) Revolving Funds is responsible for five apportionment documents: DWCF (97X4930), the National Defense Stockpile Transaction Fund (97X4555), the Pentagon Renovation Maintenance Revolving Fund (97X4950), the Building Maintenance Fund (97X4931) and the Surcharge Collections, Sales of Commissary Stores, Defense Trust Fund (97X8164). Details and explanations on preparing the SF-132 can be found in OMB Circular A-11 Preparation, Submission and Execution of the Budget, Section 121.

3.1.1. The DWCF is apportioned new budget authority in the form of direct appropriations, unobligated balances brought forward, spending authority from offsetting collections and contract authority. The FBWT is not apportioned because the financing resources have already been encumbered by obligations and the unencumbered balance is factored into unobligated balances brought forward.

3.1.2. The other four revolving funds (listed in section 190101 of this chapter) are apportioned spending authority from offsetting collections and unobligated balances brought forward.

*3.2 Contract Authority (190302)

The initial apportionment of contract authority for a fiscal year is typically the operating budget for supply management activities, and for both supply and non-supply management activities is the CIP reflected in the budget year column of last year's President's budget. In other words, the October 1 AOB will reflect the BY column submitted the previous February.

3.2.1. Supply management activities receive contract authority for a variability target, which represents an amount of contract authority to be held in reserve by the OUSD(C) to ensure continuity of operations for fluctuations in materiel costs and/or increased customer orders. The OUSD(C) provides requested adjustments from the September initial apportionment to OMB in February/March, reflecting revised estimates displayed in the current year column of the President's budget submission most recently provided to Congress. The OUSD(C) may also request other adjustments that reflect significant changes experienced in budget execution.

3.2.2. Contract authority is available for obligation within the fiscal year for which it is provided. By definition, contract authority is unfunded and, therefore, obligations incurred

through use of contract authority may not be liquidated (i.e., paid) until funded by offsetting collections or other resources credited to the DWCF. Contract authority does not authorize outlays; it is reported on the SF-133 to ensure obligations do not exceed apportioned amounts from OMB. Budgetary resources should be sufficient at the DWCF activity level to ensure disbursements are funded.

*3.3 Annual Operating Budget (190303)

The Revolving Funds Directorate issues initial AOBs for each Component's DWCF activities prior to the beginning of the fiscal year. A sample is shown later in this chapter. The AOB identifies an operating budget, operating results, unit cost(s) targets and capital investment limitations (subject to 31 U.S.C. 1517) for each DWCF activity.

3.3.1. Cash is centrally managed by the Army, Navy, Air Force, Defense Commissary Agency, and the Defense Logistics Agency. Each is responsible for taking actions to remain solvent and allow operations (disbursements) continue. It is a potential violation of the Antideficiency Act (31 U.S.C. 1517) if the FBWT is below zero at the sub-account level.

3.3.2. Non-supply management activities shall maintain a positive budgetary resource balance (i.e. obligations shall not exceed budgetary resources). Obligations exceeding total budgetary resources available to non-supply management activities, and obligations exceeding issued contract authority on the AOB, are potential violations of the Antideficiency Act (31 U.S.C. 1517).

3.3.3. Cash balances may be used when negative operating results are authorized on the AOB or by action of the OUSD (C) Revolving Funds Directorate. However, the AOB of a DWCF activity does not authorize it to use cash balances associated with another DWCF activity financed within the same DWCF sub-account. It is the responsibility of the DoD Component to ensure that adequate financing or budgetary resources have been allocated to a specific DWCF activity, and to obtain timely authorization for negative operating results for non-supply management activities.

3.3.4. Administrative Restrictions and Limitations. In addition to statutory restrictions, budget authority may be apportioned or otherwise further restricted through administrative action.

3.3.4.1. An administrative limitation cannot be used to change or eliminate a statutory restriction. An administrative action can only further restrict the purpose, amount, or time for which budgetary resources may be used. DoD Components must adhere to an administrative division of budgetary resources and/or a subdivision of budgetary resources provided to a DWCF activity.

3.3.4.2. If an administrative limitation is imposed, obligations incurred must remain below the limitation even though the limitation may be lower than the total budgetary resources that otherwise would be available. Administrative limitations may be provided in various formats but must be clearly stated in writing and signed.

3.3.5. In the event that budgetary resources available to a DoD Component for financing a specific DWCF activity are not sufficient, a DWCF manager shall not assume that sufficient budgetary resources exist elsewhere within the DWCF sub-account to fund obligations in excess of resources available. Rather, the manager for the DWCF activity shall request, in writing, from the Director, Revolving Funds an increase in authority to incur obligations and shall defer additional obligations until resources are sufficient to fund them.

3.3.6. Segregation of Budgetary Resources. When an activity receives budgetary resources from more than one source, the receiving activity must maintain records which will enable it to control separately the transactions relating to each source. For example, the SF-133 should break out total obligations between Operating and CIP for depot maintenance activities. All obligations should not be reported under a single line as “reimbursable.”

3.3.7. Claims Against Budgetary Resources. A DWCF entity should have two primary types of financial accounting records--proprietary and budgetary. The balance of budgetary resources available for obligation can be determined only from budgetary accounts. Proprietary accounting records, by themselves, are not sufficient to determine budgetary resources.

3.3.7.1. Non-budgetary assets, such as inventories of stock for sale, are not a budgetary resource. Additionally, a positive FBWT does not necessarily denote availability because the balance may be entirely encumbered by obligations.

3.3.7.1.1. A fund balance, although present, may have claims against it (accounts payable for example) and is, therefore, not available for additional obligation.

3.3.7.1.2. Additionally, claims against budgetary resources, such as undelivered orders and unpaid accrued expenditures must factor into the determination of unobligated balances and, therefore, budgetary resources available for obligation.

3.3.7.1.3. Similarly, budgetary accounts may not represent a budgetary resource available for obligation. For example, anticipated customer orders are not budgetary resources available for obligation.

3.3.7.2. Administrative restrictions or other withheld amounts limit the balance of budgetary resources available for obligation. Budgetary resources available for obligation can be determined from data required to be reported on the SF-133.

*3.4 Budgetary Resources (190304)

The reconciliation of budgetary resources is reported to DWCF activities monthly on the SF-133 Report on Budget Execution and Budgetary Resources. Details on the preparation and explanation of the SF-133 can be found in [Appendix F](#) of OMB Circular A-11 Preparation, Submission and Execution of the Budget.

3.4.1. Earned Reimbursements. Earned reimbursements are the amount of customer orders that have been filled. In the case of orders from the public, including state and local governments, the amount is limited to the amount of the cash advance received. Earned reimbursements should not exceed the amount of individual customer orders as well as letters of intent, commanders' orders, congressionally mandated actions, and other emergency situations.

3.4.2. Obligations should not be authorized or incurred in a DWCF activity unless available resources (apportioned contract authority, direct appropriations, or accepted customer orders) exceed the proposed obligation. Obligations that exceed apportioned or accepted amounts may result in a violation of the Antideficiency Act. Such violations are reportable to the President and the Congress, and can involve criminal prosecution for the responsible person or people.

3.4.3. A non-expenditure transfer moves budgetary resources from one budget account, appropriation, or fund to another. Non-expenditure transfers of funds may be received from another appropriation or fund or may be made to another appropriation or fund when appropriate and authorized. A non-expenditure transfer of funds received from another appropriation or fund increases the amount of available budgetary resources. A non-expenditure transfer of funds made to another appropriation or fund decreases the amount of available budgetary resources.

*3.5 SF-133 Report of Budgetary Execution and Budgetary Resources (190305)

3.5.1. Mandatory and Discretionary Spending. The DWCF uses both mandatory and discretionary spending accounts. Mandatory spending is associated with apportioned contract authority and discretionary spending is associated with reimbursable authority. The format for the SF-133, outlined in OMB Circular A-11, breaks out these types of funding into the respective categories. Although obligated contract authority is considered mandatory, collections that liquidate contract authority are considered discretionary. Likewise, since the source of the FBWT is from discretionary funding, the fund balance itself is also considered discretionary.

3.5.1.1. Line 1000. Unobligated balance brought forward - For non-supply activities, this line represent the amount of work still required to be performed against outstanding customer orders and unencumbered cash balances. Unobligated contract authority will be cancelled at the end of the fiscal year. Contract authority brought forward is always zero for both Supply operations and the CIP. Unobligated balances are apportioned for non-supply DWCF activities and unobligated direct appropriations. Obligated contract authority remains in USSGL 4139 until a collection is posted against the balance, which allows for the disbursement.

3.5.1.2. Line 1021. Recoveries of prior year obligations actual - The actual amounts of prior year obligations should be reported on this line and not included in Line 2104,

Obligations Incurred. If current year recoveries cannot be separated from prior year recoveries, the total amount of recoveries should be reported on Line 1021 and not included in Line 2104.

3.5.1.2.1. Recoveries of prior year obligations are automatically re-apportioned for DWCF activities.

3.5.1.2.2. Prior year contract authority that is deobligated and not re-obligated by September 30 automatically expires.

3.5.1.3. Line 1750. Spending Authority from Offsetting Collections-Reimbursable authority is the sum of planned customer new orders plus the change in uncollected customer orders for industrial and service activities.

3.5.1.4. Line 1910. Total Budgetary Resources- Defined as the sum of spending authority (1750), contract authority (1640), direct appropriations (1160), PY deobligations (1021), and PY unobligated balance (1000), less collections to liquidate contract authority (depreciation) (1826) received by that activity. For supply activities, it represents the sum of contract authority apportioned (1640), the amount of PY deobligations earned (1021), and any direct appropriations received (1160).

3.5.1.5. Line 1640. Contract Authority- Displays apportioned contract authority. This includes contract authority for prior year capital programs that is separately displayed on the AOB. These amounts are segregated on the AOB for administrative purposes.

3.5.2. Availability Restrictions. As noted in the preceding paragraphs, budget authority is available for obligation only in accordance with purpose, amount, and time restrictions imposed by statute, by apportionments imposed by the OMB, and by administrative limitations imposed by authorized officials within the OUSD(C) and the DWCF Components. Other events reported on the SF-133, "Report on Budget Execution and Budgetary Resources," further restrict the availability of budgetary resources. The OMB Circular A-11, "Instruction on Budget Execution," includes an explanation of those events and identification of the SF-133 lines on which they are reported.

3.5.3. Definitions of Budgetary Indicators

3.5.3.1. Line 3200. Obligated balance, net, end of period- Represents an unrealized budgetary position of a specific DWCF activity based on pending transactions and unexecuted orders.

3.5.3.1.1. This line normally will have a negative balance for industrial and service type activities. A negative balance indicates there are sufficient resources available to cover future pending transactions. For industrial and service type activities, Line 3200 indicates the amount of work needed to be performed to complete accepted customer orders.

3.5.3.1.1. Supply activities should typically have a positive Line 3200 balance because contract authority allows for the obligation of resources in advance of available

funding. For supply activities, Line 3200 indicates the amount of future customer orders and/or appropriated funding required for liquidating future potential transactions.

3.5.3.2. Line 3090. Uncollected Federal Order- Represents accounts receivable and unfilled customer orders (Carryover/Backorders). These represent uncollected customer payments from Federal Sources and are future collections to a DWCF activity.

3.5.3.3. Line 3050. Unpaid Obligations- Represents budgetary claims in the form of accounts payable and undelivered orders because they represent future disbursements.

3.5.4. Appendix F of OMB Circular A-11 displays a detailed example of the SF-133 format. In addition, appendix F covers the format for the SF-132.

*3.6 DFAS Reporting (190306)

The DFAS Accounting Report (AR) 1307 is the official internal document for financial accounting and is the source document for the annual financial statements. The following are clarifications on how the (AR) 1307 relates to the reconciliation of budgetary authority.

3.6.1. Statement of Financial Position and Statement of Cash Flows. All amounts shown on these statements should reconcile to their corollaries on the SF-133. The accompanying footnotes must explain any amounts that do not reconcile.

3.6.2. Statement of Operations. Clarifications on proprietary accounting terminology and budget formulation terminology are provided [here](#).

3.6.2.1. Expense. Expenses are the cost of goods and services used in the process of earning revenue. This is not synonymous with the budgetary term “obligation.” Obligations occur before an expense and require a budgetary resource at the time of obligation. Thus, obligations typically exceed expenses. Capital purchases are “expensed” via depreciation and inventory is expensed when it is sold.

3.6.2.2. Cost. The term “cost” may refer to either an obligation or expense depending on the circumstances. To clarify, an “obligation” is an unrealized cost that requires a budgetary resource before an outlay of cash occurs, whereas an “expense” is a realized cost (an actual bill has been received or inventory sold). The reconciliation of budgetary resources relies upon recognizing obligations as “costs” to ensure that budgetary resources are in place to cover any purchases that will not be expensed until subsequent fiscal years. The (AR) 1307 does not display budgetary resources or obligations. Conversely, the SF-133 does not display expenses. The reconciliation of these reports is key to ensure efficient and effective management across the DWCF.

3.6.3. Cost of Goods Sold (COGS). The (AR) 1307 COGS represents the historical cost of goods to produce revenue. Further, historical cost does not include inflation. Therefore, the amount of budgetary resources required to purchase inventory and produce goods and services may have a separate and distinctly higher value than the accounting COGS.

3.6.4. Depreciation. The accounting purpose for depreciation is to **realize** costs incurred as an asset is consumed over its useful life. It is based upon the purchase price of the asset and the length of the item's useful life as described in Volume 4 Chapter 6 of the DoD FMR.

3.6.4.1. Depreciation is the recognition of an expense in the current period for portion of a capital outlay (that required a budgetary resource) that occurred in a previous period. Thus, depreciation for budgetary purposes (through inclusion in stabilized rates) results in the recoupment of cash that was used to acquire assets to replace those wearing out. Recovery of depreciation is a financing source for the DWCF Capital Investment Program (See also Volume 2B, Chapter 9, Section **090104**).

3.6.4.2. Depreciation recovery may not, by itself, be sufficient to finance the CIP. In those instances, an additional element identified as a "Capital Surcharge" may be added to the stabilized rates/prices to finance the incremental difference. The capital surcharge is not an expense and is not displayed on the Statement of Operations. A capital surcharge is one of many elements that may be used in computation of the stabilized billing rate/price. The stabilized billing rate/price, when billed, is recorded as revenue. Since there is no counteracting expense for a capital surcharge, it may result in a positive Net Operating Result (NOR) on the (AR) 1307. However, for budgetary purposes, an adjustment will be made below the NOR calculation in order to ensure budgetary resources are available for the cash outlays required.

3.6.4.3. For budgetary purposes, depreciable assets are purchased with contract authority in advance of appropriated funding. Depreciation, for budgetary purposes, is used to describe collection of budgetary resources to offset the contract authority used to purchase the item. This recovery period may be shorter than the useful life of the item depending on the budgetary resources required by an activity.

3.6.5. Net Operating Result (NOR)/Accumulated Operating Results (AOR). The NOR/AOR for budgetary purposes may be different than the (AR) 1307 NOR/AOR. The fund manager must develop a methodology that is representative of the budgetary NOR/AOR. This methodology is typically reviewed during quarterly execution reviews with OUSD(C) Revolving Funds and the Integrated Program/Budget Review.

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

3.7 Execution Review (190307)

The Revolving Funds Directorate receives a quarterly execution briefing and a Fund-28 Execution Performance Quarterly Analysis (see Volume 2B, Chapter 9, Section 0903) from each DWCF activity. Each activity's results of operations (through the latest available quarter) are formally reviewed by OUSD(C) leadership to determine the actual results of operation in comparison with plans for disbursements, collections, revenue, expense, net operating results, and unit costs. These briefings typically occur in February, May, and August. The purpose of the review is to determine if financial operations are proceeding according to plan and if there are significant deviations from the plan to actual execution. Management actions may be required to either bring execution back into line with the plan or to revise the plan to be consistent with current and more realistic financial expectations.

3.8 Adjusting Component Resources (190308)

Based on budget execution, Components periodically request the Revolving Funds Directorate to adjust their targets and/or capital budget limitation. Unless the Congress has provided a capital purchase limitation or other direction that would preclude making a requested adjustment, a Component's request will be evaluated and approved (reflected in a revised AOB) or disapproved based on the merit of the justification provided.

Example of an Annual Operating Budget (AOB)

NAVY WORKING CAPITAL FUND			
NAVY DEPOT MAINTENANCE - FLEET READINESS CENTERS (FRC)			
FISCAL YEAR <u>2013</u> COST AUTHORITY			
ACTIVITY Budgetary Resources	OPERATING BUDGET		
	Unit Cost (\$)	Number of Units (000)	Total Cost Approved (In Millions)
OPERATING BUDGET			
PY Unobligated Balance (SF-133 Line 1000)			\$705.484
Total Spending Authority from offsetting collections (Includes Depreciation) (SF-133 Line 1750)			\$2,253.249
Collections applied to liquidate Contract Authority (Depreciation) (SF-133 Line 1826)			\$-41.852
Total Operating Reimbursable Authority (Lines 1000+1750+1826) <u>1/</u>			\$2,916.881
Capital Obligation Authority (SF-133 Line 1640) <u>2/</u>			
FY 2007			\$ 0.080
FY 2009			\$ 0.100
FY 2010			\$ 0.866
FY 2011			\$ 1.770
FY 2012			\$ 8.159
FY 2013			\$ 43.537
TOTAL			\$ 54.512
NET OPERATING RESULT: (NOR GOAL) <u>4/</u>			\$ -6.400
ACCUMULATED OPERATING RESULT: (AOR GOAL) <u>4/</u>			\$ 7.200
Authorization Number:	Date:	Approved:	
FRC-13-09			

1.0 LIMITATIONS AND GUIDANCE

1.1 **TOTAL OPERATING REIMBURSABLE AUTHORITY:** The estimate of reimbursements expected to be **earned** during the current fiscal year, subject to Office of Management and Budget apportionment, other authorized reimbursements, and/or other income for which current fiscal year obligational authority is automatically established based on customer orders received. Negative anticipated reimbursements will not be recorded on the SF-133. Advances are required from non-federal orders. Specific prior approval of this office is required for additional budgetary resources beyond the amount authorized. Direct Reimbursable Outputs are limited to the actual cost incurred up to the limit of obligation authority received on funded customer orders.

1.2 The amount listed for Capital Obligation Authority is the limitation subject to the provision of Section 1517 of 31 U.S.C., the Anti-Deficiency Act. Obligations will not be incurred beyond the total approved amount shown for each year for the Capital Budget (as modified by reprogramming per authority provided in DoD 7000.14R, DoD Financial Management Regulation, Volume 2B, Chapter 9) without the specific prior approval of this office.

1.3 **TOTAL BUDGETARY RESOURCES (SF-133 Line 1910):** The amount authorized to be reported on line 1910 of the SF-133 is the sum of Reimbursable Authority, Contract Authority, and Recoveries of prior year unpaid obligations (SF-133 line 1021).

1.4 **AOR & NOR:** The Accumulated Operating Result (AOR) represents the cumulative impact of gains and losses on total operations of the activity group since the inception of the fund. The stated financial goal of the Working Capital Fund is to achieve a zero AOR over time. The AOR, along with the Net Operating Result (NOR), provide primary financial management targets and will be used in conjunction with other performance metrics to assess the overall operational effectiveness of the activity group. For each Activity Group, the Component is responsible for preparing a monthly Revenue and Cost Plan. Formal First Quarter and Mid-Year Joint Execution Reviews of this plan will be conducted by this office in February and May 2013.

1.5 **CASH MANAGEMENT:** Cash management remains the responsibility of the Navy. This cash management responsibility entails taking action to maintain a positive cash balance for Navy Activity Groups, in total, at all times. Failure to maintain a positive balance will result in a statutory violation of Section 1517, of 31 U.S.C., the Anti-Deficiency Act, by the Navy. The Component may require DFAS to vary its billing cycle or advance bill, when it is deemed necessary to do so, in order to maintain cash solvency. The magnitude, duration, and reason for advance billing by business area must be reported by the initiating Component to the Director, Revolving Funds within 15 calendar days of the end of the month in which the advance billing took place. In exercising the authority to advance bill orders, the Department of the Navy must ensure that, in total, for all Activity Groups, advance billing for services provided or work performed by the Department of Navy's Working Capital Fund does not exceed \$200 million. Advance billing in excess of \$200 million, cumulative, is prohibited during the fiscal year. The Component remains responsible for compliance with monthly execution of collections and disbursements in accordance with the monthly approved plan.

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

1.7 PERFORMANCE GOALS: Performance effectiveness measures identified in the FY 2014 President's Budget Submission, FY 2013 column include:

<u>Measure</u>	<u>Goal</u>
Schedule Conformance:	
Aircraft	>90%
Components	>95%
Engines	>90%
Inventory turnover ratio	>2.4
New Orders	\$2,130.1 million
Operating Results:	
NOR	-\$6.4 million
AOR	\$7.2 million

1.8 OTHER:

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

1.8.2. This document requires that collections for **\$41.852 million** in budgeted depreciation are applied to unliquidated contract authority (account 4139) and are not used as additional operating authority.

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

1.9 CONTRACT AUTHORITY FOR CAPITAL INVESTMENTS: This document provides **\$54.512 million** in contract authority to the Fleet Readiness Centers (NADEPS) activity during this fiscal year for Capital Investment Program (CIP) requirements. Of this amount, there is **\$10.975 million** reappportioned for CIP requirements from prior fiscal years. In addition, recoveries of prior year capital obligations increase FY 2013 authority in the amount of recoveries. However, the Director for Revolving Funds must approve use of any recovered capital authority. Instructions for reporting contract authority withdrawn on the SF 133 Report on Budget Execution are provided below:

1.9.1. The capital program collections are anticipated to be **1.96 percent** of customer orders during the year, up to a fiscal year maximum of **\$41.852 million**. The collection percentage is based on budgeted depreciation costs and capital cash surcharges included in prices/rates. The maximum amount financed above will recover the total capital cash requirements projected for the fiscal year.

1.9.2. The collected amount for the capital program will be moved from operating collections into capital collections and will liquidate previously realized (obligated) capital contract authority. Unused (unobligated) contract authority is removed at the end of the fiscal year; and is only available for within scope adjustments as provided below. Realized/obligated contract authority will remain accounted for and carried forward until it is liquidated by capital collections or de-obligated. Thus, cumulative unliquidated capital contract authority outstanding for the capital program equals the total cumulative capital obligations for all years less the cumulative capital collections for all the years since the inception of the capital program.

1.9.3. At fiscal year end, the amount collected will be compared to the amount obligated. If the amount collected requires to be adjusted upward to a maximum of 100 percent of obligations to maintain cash corpus requirements, an adjustment will be made in the rate development. If cumulative collections exceed cumulative outlays and cumulative obligations because of deobligations, a negative capital surcharge may be used to return the excess collections so long as cash corpus requirements are maintained.

1.10 CONGRESSIONAL DIRECTION: Funding released in this and subsequent documents is to be executed only in accordance with all applicable provisions of any Continuing Resolution(s), the National Defense Authorization Act for Fiscal Year 2013 (P.L. 112-239), the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-006), and any supplemental appropriations, when enacted.

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

2.0 CAPITAL BUDGET PROGRAM

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

The capital budget will be executed in accordance with the Financial Management Regulation. Effective April 4, 2007, the Defense Working Capital Funds Capital Investment Program (CIP) Budget expense/investment threshold (FMR Volume 2B Chapter 9) increased from \$100,000 to \$250,000 for all categories except Minor Construction. The National Defense Authorization Act for Fiscal Year 2011 (P.L. 111-383), dated January 7, 2011, Section 1403 increased the CIP Minor Construction threshold from \$100,000 to \$250,000. The capital budget authority shown in Section 9 of this document reflects this change. Minor Construction projects between \$100,000 and \$250,000 that were obligated prior to January 7, 2011 will be executed under the previous threshold. All new Minor Construction obligations must comply with the \$250,000 CIP threshold. Note that, although the capitalization threshold increased, assets between \$100,000 and \$250,000 will still be recorded in Department's financial reports as fixed assets and depreciated in accordance with the FMR Volume 11B.

3.0 CAPITAL PROJECT WITHIN SCOPE OBLIGATION ADJUSTMENTS

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

(\$ Millions)

FY 2010 Program	
MINOR CONSTRUCTION	0.066
Replacement Capability	0.066
Non-ADPE & TELECOM EQUIPMENT	0.800
Replacement Capability	0.800
FY 2010 Program Year Total	0.866

FY 2011 Program	
ADPE & TELECOM EQUIPMENT	0.092
Computer Software	0.067
Telecommunications	0.025
Non-ADPE & TELECOM EQUIPMENT	0.897
Replacement Capability	0.897
MINOR CONSTRUCTION	0.781
Replacement Capability	0.178
Production Capability	0.603
FY 2011 Program Year Total	1.770

FY 2012 Program	
Non-ADPE & TELECOM EQUIPMENT	5.515
Replacement Capability	1.642
Production Capability	3.873
ADPE & TELECOM EQUIPMENT	1.362
Computer Software	0.307
Other Computer and Telecom Support Equipment	1.055
MINOR CONSTRUCTION	1.282
Replacement Capability	0.840
Productivity Capability	0.442
FY 2012 Program Year Total	8.159

FY 2013 Program

Non-ADPE & TELECOM EQUIPMENT	39.057
Replacement Capability	31.964
Productivity Capability	7.093
ADPE & TELECOM EQUIPMENT	1.000
Computer Software	1.000
MINOR CONSTRUCTION	3.480
Replacement Capability	3.480
FY 2013 Program Year Total	43.537
Grand Total	\$54.512

Example of the (AR) 1307

Statement of Operations

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

Example of the (AR) 1307 Part VII

**PART VII
INVENTORY MANAGEMENT REPORT**

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