

NAVY WORKING CAPITAL FUND (NWCF)

Gene Townsend
GT FINANCIAL

NWCF AGENDA

- ▶ NWCF Background
- ▶ How Does NWCF Work
- ▶ Private Sector Similarities/Differences
- ▶ NWCF Constraints
- ▶ NWCF Benefits
- ▶ Takeaways

NWCF BACKGROUND

NWCF BACKGROUND

- ▶ Congress authorized WCF in 1949
 - Title 10 U.S.C. 2208
- ▶ NWCF is a Revolving Fund
 - It must sell services/products to customers
 - Cash is received from customers for services and products sold
- ▶ NWCF Creation Process
 - An Individual Command requests a NWCF Charter
 - Charter is approved by Navy/DOD Comptroller/Congress
 - Cash infusion is provided by Congress to start operations
 - Investments are purchased with cash

NWCF BACKGROUND

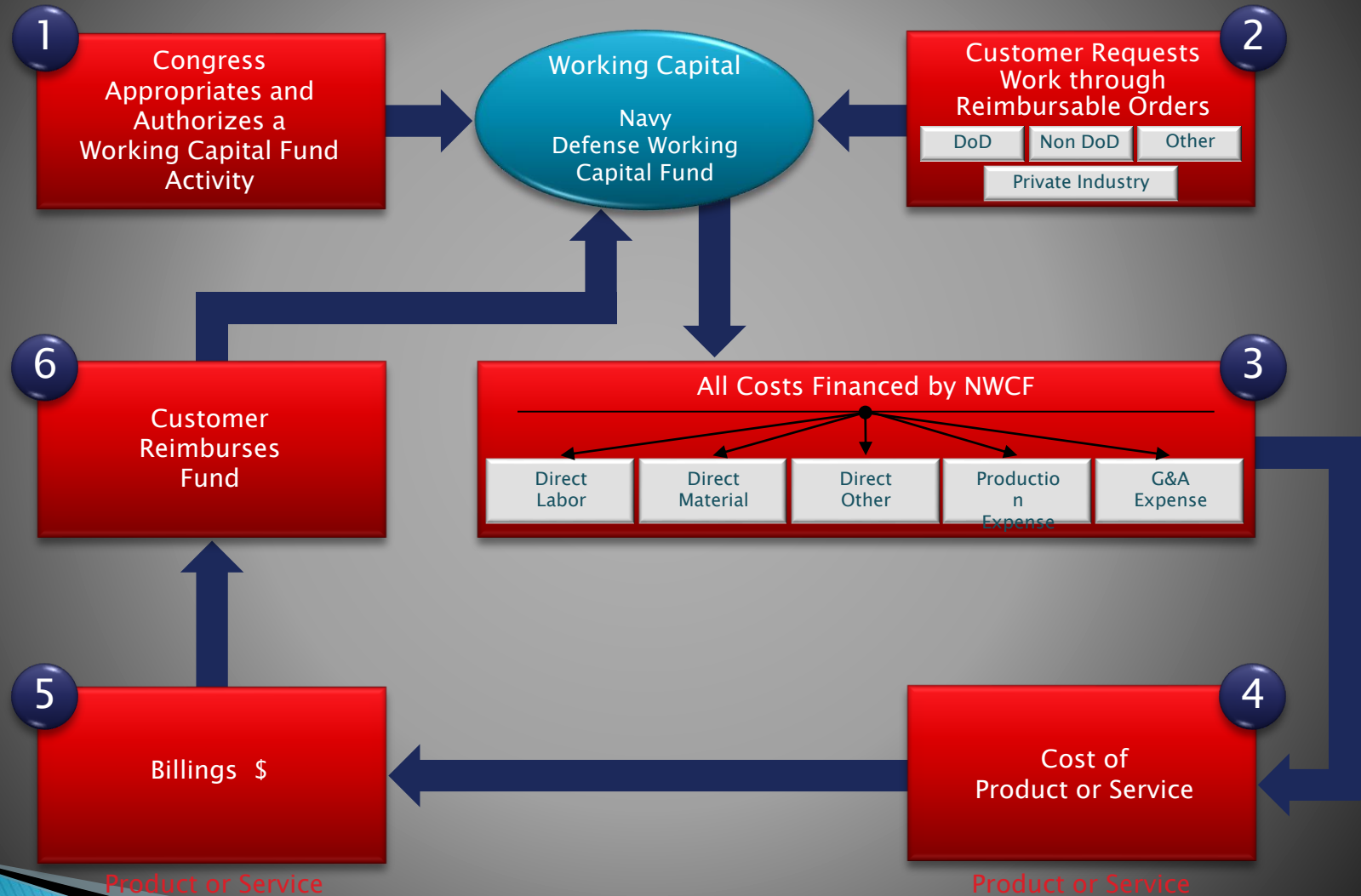
- ▶ Each approved Entity receives a NWCF Charter (Incorporation)
- ▶ Established as a means of helping service activities to function more efficiently and in a business-like manner.
- ▶ Operates as a revolving fund and is free from dependence on a cycle of annual appropriations.
- ▶ Has an indefinite life to operate on a basis similar to private enterprise.
- ▶ Working Capital Funds Corpus (cash) is used to finance operations from the time that specific work is begun to the time that payment is received from the customer.

NWCF BACKGROUND

- ▶ Is a Command and a business unit
- ▶ Has a cash account in Treasury
- ▶ Does not finance operations with appropriated budgets but can have elements within NWCF that have appropriated funding (TPS)
- ▶ Must have customers
- ▶ Must sell services/products to customers to survive
- ▶ Must bill customers for services/products to receive cash

HOW DOES NWCF WORK

NWCF...Concept of Operations



HOW DOES NWCF WORK

▶ Budget Process

- Budgets are developed about 16–18 months prior to beginning of a fiscal year
- Internal customers submit their anticipated customer business requirements into a planning system
- These customer requirements plus annual depreciation, overhead and G&A budgets are used to develop rates
- May have Direct Product Accounts, Rated Service Accounts, mini-NWCF Accounts are developed with budgeted expense and revenue, develop a rate and determine a cost driver (Per hour, event, etc)

HOW DOES NWCF WORK

- Rates include direct and indirect costs
- Rates are developed on a breakeven basis minus prior year gains and plus prior year losses
- Once rates are approved in the Congressional budget process, they are stabilized for one year or less
- NWCF Capital Investment Program (CIP) requirements are submitted for construction and equipment needs. Paid for with cash.
- Proposed Investments must show return on investment (ROI), net present value (NPV), payback period and internal rate of return (IRR)

HOW DOES NWCF WORK

- It is a business entity
- Mission statement authorizes the NWCF products and services
- Similar to private sector profit-oriented business
- Sells services/products to customers for predetermined fixed rates
- Operates on an accrual expense/revenue basis
- Customers are billed for services/products
 - generates cash
 - recognizes revenue (sales)

HOW DOES NWCF WORK

- All costs are initially charged to WCF and then recovered through rates charged customers
- Profits/losses will occur in any given fiscal year basis
 - profits will reflect lower rates in succeeding year rates
 - losses will reflect higher rates in succeeding year rates
- Rates are developed on a breakeven basis considering prior year profits/losses

HOW DOES NWCF WORK

- ▶ Carryover workload is usually based on 60 days of funded workload
- ▶ Also can be computed based on amount of each appropriation expense rate
- ▶ There are also some exclusions
- ▶ Any forecasted work that exceeds the carryover limits may not be accepted
- ▶ Carryover may exceed forecast due to late receipt of work, more than expected, slow execution and untimely accrual processing

HOW DOES NWCF WORK

- ▶ Uses General Accepted Accounting Principles (GAAP)
- ▶ Transactions are posted to the General Ledger Accounts (Cash/Accounts Receivable/Accounts Payable, Revenue & Expenses)
- ▶ Income Statements & Balance Sheets are created from the General Ledger Accounts
- ▶ Income Statements contain revenue & expense accounts with Net Operating Results (NOR)
- ▶ Balance Sheets contain Assets & Liability accounts and Accumulated Operating Results (AOR).

HOW DOES NWCF WORK

- ▶ Need to perform a monthly/quarterly budget vs actual variance analysis
- ▶ Net Operating Results (NOR)
- ▶ Revenue–Direct hours worked, Direct/Indirect labor ratio
- ▶ Expenses– over/under
- ▶ Cash analysis
- ▶ Carryover work
- ▶ Need to forecast to year–end

HOW DOES NWCF WORK

- ▶ Perform Monthly Financial Analysis at a minimum
- ▶ Compares Budgeted and Actual Revenue \$
- ▶ Compares Budgeted and Actual Expenses \$
- ▶ Compares Budgeted and Actual Cost Drivers

- ▶ All Variances are either Price or Volume related and Favorable (F) or Unfavorable (UF)

NWCF BENEFITS

NWCF BENEFITS

- ▶ Includes all costs as defined by the NWCF Charter
- ▶ Provides financial flexibility for management
- ▶ Provides customers with stabilized fixed rates
- ▶ Provides more uniform cost visibility to management
- ▶ Provides total costs to provide service for a customer
- ▶ Profits/losses can be carried forward to next fiscal year
- ▶ Offers flexibility that can accommodate unique circumstances of DOD
- ▶ Is run like a business

NWCF BENEFITS

- ▶ Some NWCF Activities Use Activity Based Costing (ABC) methods to charge customers
- ▶ This is essential for maximum control of costs, development of standard pricing, and projection of accurate budgets
- ▶ These activities are NWCF accounts within the NWCF accounting system. Examples: Lab use, aircraft flights, etc.
- ▶ Using ABC reduces labor rates and makes an Activity more competitive

PRIVATE SECTOR

SIMILARITIES / DIFFERENCES

- ▶ Similarities are:
 - (1) need same skill sets to manage operations
 - (2) uses job order accounting system
 - (3) has a cash account to operate
 - (4) need customers to pay for services
 - (5) Investments must show return on investment (ROI), net present value (NPV), payback period and internal rate of return (IRR)
- ▶ Differences are:
 - (1) Civilian end-strength/ work-year limitations
 - (2) Amount of workload carried over to next fiscal year
 - (3) Future customers charged for past deficits

Civilian Personnel Constraints

- ▶ Title 10, Subtitle A, Part 1, Chapter 3, Paragraph 129
- ▶ This paragraph of Title 10 applies to Indirectly Funded Employees at the Installation Level defined as:
 - Working Capital employees
 - MRTFB employees funded by Institutional and MRTFB customers
- ▶ Prohibition of Certain Civilian Personnel Management Constraints
 - Personnel shall be managed each fiscal year solely on the basis of workload
 - DoD indirectly funded employees may not be managed on basis of constraints such as:
 - Number of employees employed on last day of fiscal year
 - Any constraint in terms of work-years, end strength, full-time equivalent positions or maximum number of employees
- ▶ Bottom Line – No artificial personnel constraints. Personnel numbers should be determined by workload (Supply/Demand equation)

Income Statements

WCF Activities

Revenue/Sales

- Expenses

Net Operating Results
(NOR)

Private Sector

Revenue/Sales

- Expenses

Net Income

Balance Sheet

WCF Activities

Assets*

Liabilities

Capital Invested

Accumulated Operating
Results (AOR)

*Assets include
accumulated
depreciation

Private Sector

Assets*

Liabilities

Capital Invested

Retained Earnings

Takeaways

- ▶ All costs are initially charged and paid by NWCF and then recovered through rates charged customers
- ▶ Rates are developed on a breakeven basis (no profit/loss) unless NAVCOMPT directed otherwise
- ▶ Investments are purchased with cash and are depreciated as an expense over assets useful life and cost recovered in customer rates

Takeaways

- ▶ Managed on accrual basis for expenses and revenue
- ▶ Operates as a business (Revenue minus Expenses equals Net Operating Results).
- ▶ Past Profits/losses are retained in an Accumulated Operating Results (AOR).

Takeaways

- ▶ Each approved Entity receives a NWCF Charter (Incorporation)
- ▶ Established as a means of helping service activities to function more efficiently and in a business-like manner
- ▶ Operates as a revolving fund and is free from dependence on a cycle of annual appropriations
- ▶ Has an indefinite life to operate on a basis similar to private enterprise
- ▶ WCF Corpus (cash) is used to finance operations from the time that specific work is begun to the time that payment is received from the customer

Takeaways

- ▶ WCF operates like a business
 - Creates buyer–seller relationship so buyers (customers) pay for services/products they receive
 - Sellers are dependent upon orders received from customers to recover operating costs
- ▶ WCF objectives are:
 - Provide stability to customer prices
 - Have an Accumulated Operating Result (AOR) of zero over time. Similar to Retained Earnings in a business except past profits/losses go on forever
 - Must maintain cash solvency

QUESTIONS