

# ARMY WORKING CAPITAL FUND FISCAL YEAR (FY) 2014 BUDGET ESTIMATES



SUBMITTED TO CONGRESS APRIL 2013

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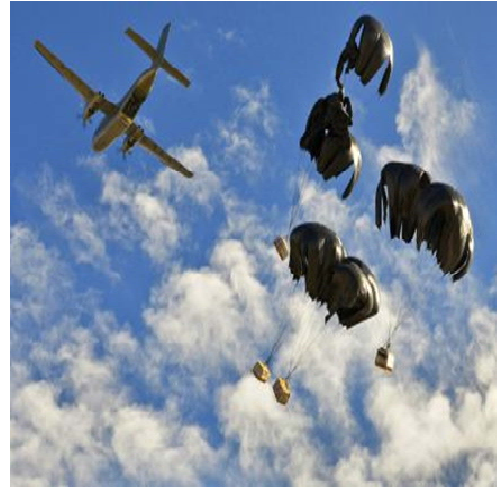
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Supplies air-dropped to U.S. Soldiers deployed to Afghanistan.

The estimated cost of this report or study for the Department of Defense is approximately \$82,000 for Fiscal Year 2013

All photographs in this document were obtained from official U.S. Department of Defense web sites



**ARMY STRONG**

## Army Civilian Corps Creed

I am an Army civilian – a member of the Army team.

I am dedicated to our Army, our Soldiers and civilians.

I will always support the mission.

I provide stability and continuity during war and peace.

I support and defend the Constitution of the United States and consider it an honor to serve our nation and our Army.

I live the Army values of loyalty, duty, respect, selfless service, honor, integrity, and personal courage.

I am an Army civilian.

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# Army Overview

## Background

Working capital funds were established by Congress to more effectively control and account for the cost of programs and work performed in the Department of Defense. Under the provisions of Title 10 United States Code, § 2208, the Secretary of Defense may establish working capital funds to finance inventories of supplies and industrial-type activities that provide common services such as repair, manufacturing, or remanufacturing. Unlike profit-oriented commercial businesses, the revolving fund's goal is to break even by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates. Revolving fund prices are generally stabilized or fixed during the year of execution to protect customers from unforeseen fluctuations that would impact their ability to execute the programs approved by Congress.



Paratroopers fired a M777 howitzer during a demonstration.

The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of the Army Working Capital Fund (AWCF) and decision-makers at all levels more aware of costs for goods and services.

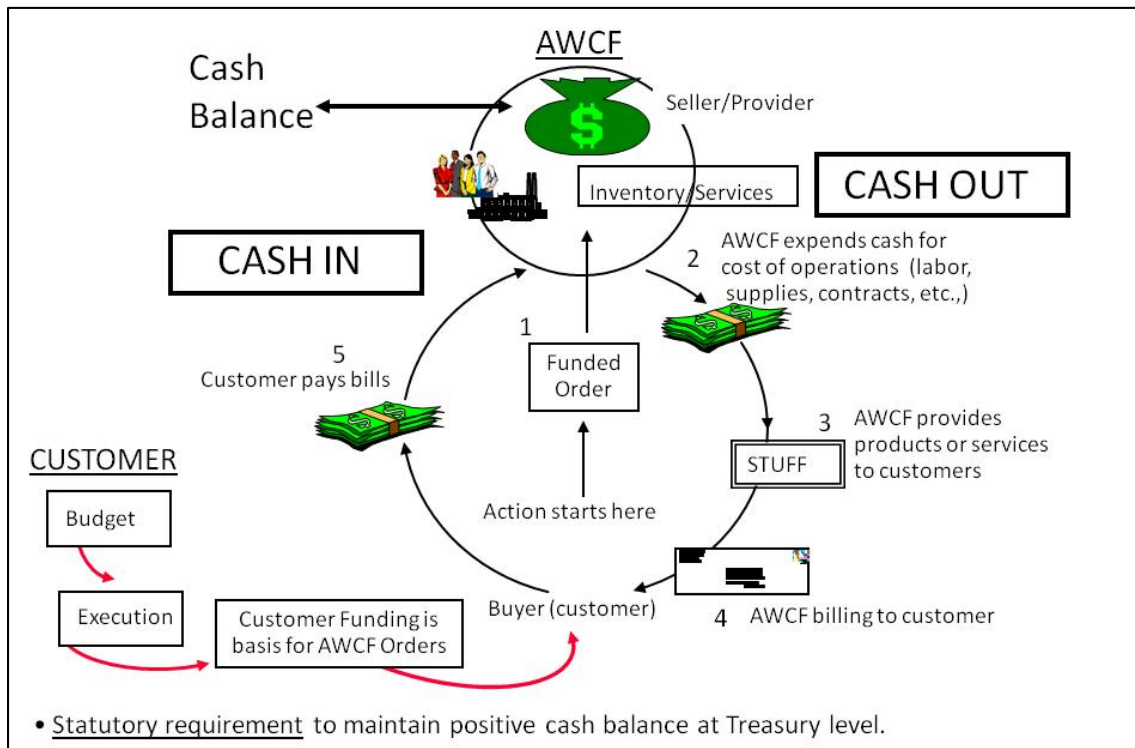
The Army's revolving fund activities evolved from two separate types of funds. The first type, known as the Stock Fund, procured spare parts in volume to either sell to customers or hold in inventory. The second type, known as the Industrial Fund, provided industrial services to customers, such as depot maintenance, munitions and weapon systems component manufacturing, and ammunition storage. Both types of revolving funds were financed primarily by reimbursements from customer appropriated accounts.

Figure 1 on the next page shows the interaction between customers' appropriated funds, AWCF business operations, and cash. Customer



appropriated funding is synchronized with AWCF workload forecasts during budget development. During the year of execution, appropriated fund customers submit funded orders (1) to AWCF providers requesting services (repair, overhaul, or manufacturing) or supplies (spare or repair parts). This obligates appropriated funds. In step 2, AWCF Supply Management purchases inventory for resale to customers. Also in step 2, Industrial Operations orders materiel and hires labor, supporting the projected workload (CASH OUT). In step 3, the customer receives the completed product or service and a bill (4) for payment. The customer pays the AWCF (5) for the materiel or services (CASH IN). Proper pricing of inventory and services, and accurately forecasting workload allows a balance between CASH OUT and CASH IN. Variance between these actions results in either a gain or loss of AWCF cash. Gains are returned to customers through lower future prices while losses are recouped through higher future prices.

Figure 1



## Introduction

The FY 2014 AWCF budget request supports the Army's vision to sustain and maintain a scalable and tailored force, recapitalize combat equipment, and reset assets to equip a robust, ready, regionally-engaged and responsive force structure. The AWCF directly supports the materiel readiness of operating units.

The revolving fund structure encourages cost-effectiveness, flexibility, and adaptability to meet changing workload requirements in the year of execution. It also supports full cost visibility and full cost recovery while protecting appropriated fund customer accounts from year of execution price changes. The AWCF consists of the Supply Management and Industrial Operations activity groups, with operations spanning across seventeen cities and local areas within fourteen states. The exact locations are shown in each business activity's portion of the budget. The AWCF activities disbursed approximately \$12.5 billion in FY 2012 to maintain the readiness and sustainability of military equipment.

## Performance Measures

Key financial measures are net operating result, accumulated operating result, and unit cost.

The net operating result (NOR) represents the difference between revenue and expenses within a fiscal year. Accumulated operating result (AOR) represents the summation of all operating gains or losses since activity group inception along with any prior period adjustments. Prices and rates are set at a level that brings the accumulated gains and losses to zero over the budget cycle. The unit cost is a metric primarily used in the Supply Management activity group to relate operating costs to each dollar of sales. It is measured by dividing gross operating cost (the sum of total obligations, depreciation expense, and credit) by gross sales. Adjusting the unit cost determines how much obligation authority may be distributed based on gross sales.



A CH-47 Chinook takes off with a HMMWV sling-load.

In addition to financial measures (NOR, AOR, and unit cost), operational measures assess how well the financial inputs reflected in the AWCF budget support Army strategic goals and operational readiness. Operational measures include productive yield (an indicator of whether direct labor employees can support projected workload) and stock availability (a measure of the ability of



AWCF inventory to fill a customer's requisition). These are identified within each activity group's narrative.

## Logistics Modernization Program

The Army's Logistics Modernization Program (LMP) provides a modernized logistics and finance solution that allows the U.S. Army Materiel Command (AMC) to provide world-class logistics readiness to Soldiers. LMP delivers a fully integrated suite of software and business processes, providing streamlined data on maintenance, repair and overhaul, finance, acquisition, spare parts, and materiel. It is the Army's core logistics information technology (IT) initiative,



Welding on Letterkenny Army Depot's equipment repair line.

replacing two logistics systems: the inventory management Commodity Command Standard System; and the depot and arsenal operations Standard Depot System. Additionally, LMP meets the Army's IT logistics vision of transformation from legacy applications to a modernized logistics enterprise solution across AMC.

LMP manages approximately four million transactions daily and is integrated with more than 70 DOD systems including interfaces with Army's other enterprise resource planning systems currently under development: Army Enterprise Systems Integration Program; Global Combat Support System-Army; and General Fund Enterprise Business Systems. LMP is currently used by more than 21,000 users at more than 50 Army and DOD locations. Starting in FY 2014, non-Army managed items inventory will migrate to LMP. Enhancements and

system changes continue to be applied to LMP to ensure compliance with statutory and regulatory requirements.





# Activity Groups

## Supply Management

The Supply Management activity group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. This activity group supports and builds readiness for today's and tomorrow's challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars, are directly linked to the availability of materiel. The activity group is managed by the Life Cycle Management Commands of the U.S. Army Materiel Command. Supply Management administers spare parts inventory for Army managed items, non-Army managed items (NAMI) and war reserve secondary items. Supply Management consists of four major commodity groups: aviation and missile; communications-electronics; tank-automotive and armament; and NAMI. Pre-positioned war reserve materiel is retained in protected inventory and released to support deploying combat units. The war reserve stocks contain materiel from all commodity groups. As new equipment is added to the Army's operational and training forces, new spare parts are also scheduled for inclusion in the Supply Management inventory.

## Industrial Operations



100-ton gantry crane nears completion at Sierra Army Depot.

The Industrial Operations activity group provides the Army an organic industrial capability to: conduct depot level maintenance, repair and upgrade; produce munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DOD. Industrial Operations is comprised of thirteen government owned and operated installation activities, each with unique core competencies. These include five hard-iron maintenance depots, three arsenals, two munitions production facilities, and three storage sites. Although comprised of diverse organic industrial capabilities, the preponderance of workload and associated estimates in the Industrial Operations budget submission relate to depot level maintenance, repair, and upgrade. The complex operational environment continues to place tremendous demands on equipment, resulting in much higher usage rates than in routine



peacetime operations. For example, in Afghanistan, usage rates are projected at approximately 2.5 times higher than comparable peacetime operations. These factors increase the maintenance requirements beyond what is typically budgeted. The Industrial Operations activities play an integral role in resetting equipment as it retrogrades from combat operations.

The Army's equipment Reset program is defined as a set of actions restoring equipment to a level of combat capability commensurate with a unit's future mission. The Reset program ensures Army equipment employed in the war is replaced or restored for future missions. There are three components of Reset: replacement<sup>1</sup>, recapitalization<sup>2</sup>, and repair<sup>3</sup>. The Industrial Operations activity group is involved with both the recapitalization and repair efforts. The budget incorporates depot workload assumptions associated with the Reset program (Overseas Contingency Operations funding) and peacetime training operations.

## Budget Highlights

### Overview

The FY 2014 AWCF budget request supports the Army's plans to maintain and strengthen its war fighting readiness. This submission supports ongoing global efforts, as well as home-based training requirements. The AWCF has experienced record levels of sales and revenue due to wartime operations; however, this submission reflects reduced OPTEMPO.

The budget assumes an overall reduced troop strength and a lower OPTEMPO level for the Nation's continued engagement in combat operations in Afghanistan, resulting in reduced demands and sales forecasts. Based on the reduced troop strength and OPTEMPO for FY 2014, the Supply Management activity group projects Operation Enduring Freedom sales and demands at approximately 40 percent of FY 2012 levels. For FY 2014 the Industrial Operations activity projects that new orders will approximate 71 percent of the FY 2012 level.

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<sup>1</sup> The purchase of new equipment to replace battle losses, worn-out or obsolete equipment, and critical equipment deployed and left in theater, but needed for homeland defense, homeland security, and other critical missions.

<sup>2</sup> A rebuild effort that extends the equipment's useful life by returning it to a near zero-mile/zero-hour condition with either the original performance specifications or with upgraded performance specifications.

<sup>3</sup> A repair or overhaul effort that returns the equipment's condition to the Army standard. It includes the Special Technical Inspection and Repair (STIR) program for aircraft.



The sufficiency and predictability of resources is critical for accurately forecasting and executing workload. OPTEMPO assumptions assist in the development of the budget request, but as changes to these assumptions materialize, the projections for the AWCF can change significantly. To offset this risk, both activity groups will be able to adapt to changing workload forecasts, constraining or expanding costs as necessary. The Supply Management budget request includes variability target to support spares replacement for any surge in customer demands above projected levels. The Industrial Operations activity group budget request includes a mix of permanent, temporary, and term-appointment employees, in addition to contract labor, to better respond to unanticipated increases or decreases in new orders.

## Personnel

The AWCF civilian personnel posture reflects an overall decrease through FY 2014. Changes to personnel levels are discussed within the narrative of each activity group. Civilian and military end strength and civilian full time equivalents are shown in Table 1, below.

Table 1 – Personnel

	FY 2012	FY 2013	FY 2014
<b>Supply Management</b>			
<i>Civilian End Strength</i>	2,019	2,025	2,035
<i>Full Time Equivalents</i>	1,926	2,025	2,035
<i>Military End Strength</i>	4	3	3
<b>Industrial Operations</b>			
<i>Civilian End Strength</i>	24,460	23,111	22,367
<i>Full Time Equivalents</i>	25,006	24,151	22,501
<i>Military End Strength</i>	26	26	26
<b>Total</b>			
<i>Civilian End Strength</i>	26,479	25,136	24,402
<i>Full Time Equivalents</i>	26,932	26,176	24,536
<i>Military End Strength</i>	30	29	29



## Revenue and Expenses

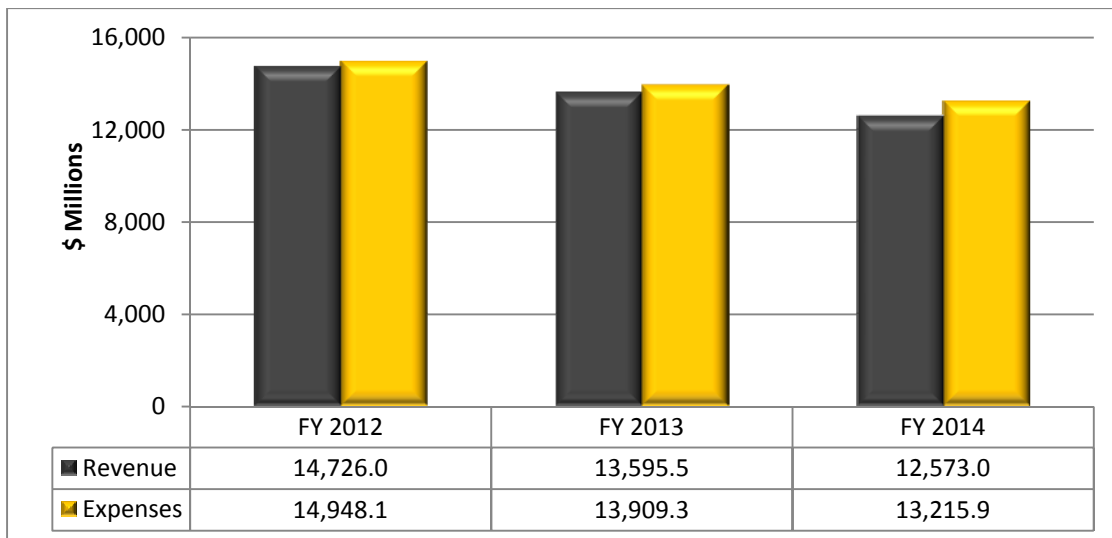
Revenue is an indicator of the combined volume of work completed by the AWCF activity groups. Expenses identify the cost of goods and services produced or sold. Both revenue and expenses are expected to decline in the budget year based on workload. Major expense drivers include cost of goods sold for Supply Management and the cost of labor and materiel consumed in Industrial Operations. Table 2 and Chart 1 below show revenue and expenses for Supply Management and Industrial Operations.

Table 2 - Revenue and Expenses

(\$ Millions)	FY 2012	FY 2013	FY 2014
<b>Revenue</b>			
<i>Supply Management</i>			
<i>Gross Sales</i>	8,895.5	7,700.4	7,053.5
<i>Less Credit</i>	521.3	508.5	504.0
<i>Net Supply Management</i>	8,374.1	7,191.9	6,549.5
<i>Industrial Operations</i>	6,351.9	6,403.6	6,023.5
<i>Total Revenue</i>	14,726.0	13,595.5	12,573.0
<b>Expenses</b>			
<i>Supply Management</i>	8,581.7	7,316.5	6,937.1
<i>Industrial Operations</i>	6,366.4	6,592.8	6,278.8
<i>Total Expenses</i>	14,948.1	13,909.3	13,215.9

Note: Total revenue above does not include appropriated funds for war reserve secondary items as shown on the Supply Management exhibit Fund 14, *Revenue and Expense*. Numbers may not add due to rounding.

Chart 1 - Revenue and Expenses



## Net and Accumulated Operating Results

Financial performance is measured by comparing actual results to goals. The goal of the AWCF is to break even over time. Army considers several factors when determining the accumulated operating result (AOR) amount to return in the rates. Returning a large positive AOR balance in one year may cause the rates to drop significantly in that year and increase significantly in the following year. In addition, the Army reviews the cash balance and the projected balance for the budget year to determine if sufficient cash exists to return the gain to the customers. The Industrial Operations activity received approval to defer the return of \$344.0 million of AOR pending resolution of potential prior year accounting issues related to inventory valuation. To prevent a significant rate increase to our customers, Supply Management is using projected excess cash to minimize rate increases in FY 2014. The Supply Management activity will not recover \$487.8 million of FY 2014 AOR. Table 3 below shows the net and accumulated operating results for both Supply Management and Industrial Operations. Details can be found under the NOR and AOR section for each business area.

Table 3 - Operating Results

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Supply Management</b>			
<i>Net Operating Result</i>	(207.5)	(124.6)	(387.6)
<i>Non-Recoverable AOR</i>	0.0	0.0	487.8
<i>Accumulated Operating Result</i>	24.4	(100.2)	0.0
<b>Industrial Operations</b>			
<i>Net Operating Result</i>	42.0	(135.2)	(202.3)
<i>Deferred AOR</i>	0.0	0.0	(344.0)
<i>Accumulated Operating Result</i>	681.5	546.2	0.0

Note: Numbers may not add due to rounding.

## Customer Rates

Each activity group has a unique rate structure. The Supply Management activity group adds a cost recovery rate (CRR) to the price of inventory items sold to recoup operating costs. Typical cost categories within the CRR include civilian pay, distribution depot costs, transportation costs, other Defense bills associated with supply operations, and costs of replacing inventory losses. The Industrial Operations activity group sets customer rates on a direct labor hour basis. The hourly composite rate recovers all costs, both direct and overhead. Activity group rates are stabilized so that the customer's buying power is protected from price swings during the year of execution. Table 4 shows the Supply



Management composite cost recovery rates and the Industrial Operations composite direct labor hour rates.

Table 4 - Customer Rates

	FY 2012	FY 2013	FY 2014
<b>Supply Management</b>	14.1%	12.8%	16.2%
<b>Industrial Operations</b>	\$129.56	\$136.01	\$141.46

## Customer Rate Change

The Supply Management customer rate change is expressed as the change in overhead costs weighted by sales revenue. Table 5 shows the customer rate change for both business areas.

Table 5 - Price Change to Customer

	FY 2012	FY 2013	FY 2014
<b>Supply Management</b>	1.3%	(1.1%)	(2.8%)
<b>Industrial Operations</b>	(11.6%)	5.0%	4.0%

## Fund Balance with Treasury

The Defense Working Capital Fund (DWCF) Fund Balance with Treasury, account symbol 97X4930, is subdivided at the Treasury into five sub-numbered Treasury accounts. The Army's account is 97X4930.001. The current balance of funds with Treasury is equal to the amount at the beginning of the fiscal year plus the cumulative fiscal-year-to-date amounts of collections, appropriations, and transfers-in minus the cumulative fiscal-year-to-date amounts of disbursements, withdrawals, and transfers-out. The AWCF is required to maintain a positive cash balance to prevent an Antideficiency Act violation under Title 31, United States Code, § 1517(a), *Prohibited obligations and expenditures*. Unlike appropriated funds, the AWCF cash balance is not equal to outstanding obligations. Cash on hand at Treasury must be sufficient to pay bills when due and should remain sufficient to support operational requirements plus six months of capital investment program disbursements. The operational requirement may include any positive accumulative operating result returned to customers, cash equal to undisbursed direct appropriations, and a commodity/market adjustment. The Army has included these adjustments, as well as a further adjustment that allows cash retention for large balances in undelivered orders (spare parts due-in from vendors) associated with high OPTEMPO that will be delivered after the budget year. Comparing the projected undelivered orders with pre-war undelivered orders provides a factor to increase the balance requirement.

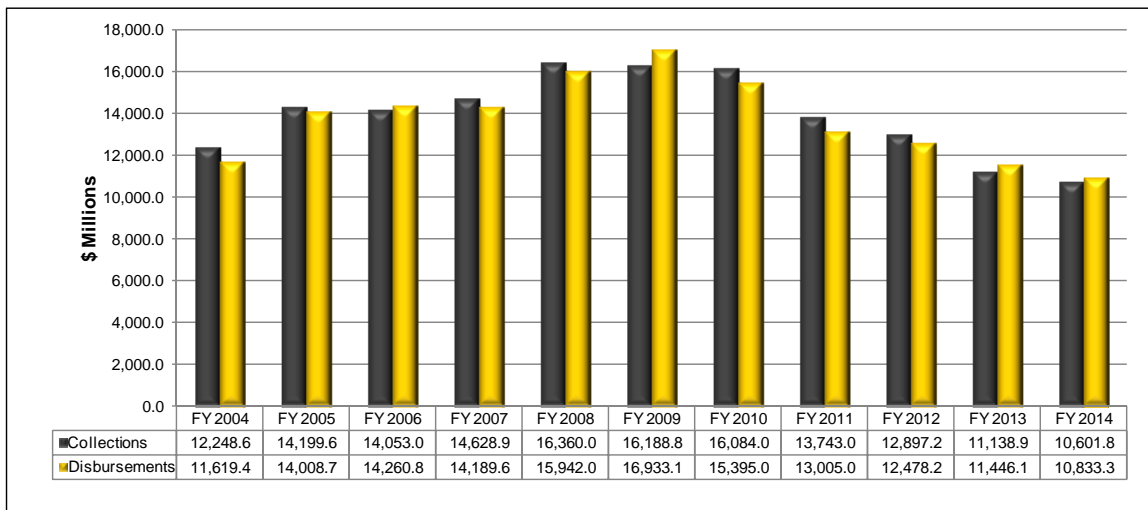


The cash balance is primarily affected by cash generated from operations but the balance is also impacted by appropriations, transfers, and withdrawals. Maintaining a proper cash balance is dependent on setting rates to recover full costs, including prior year losses, and accurately projecting workload.

## Cash from Operations

The day-to-day operations of the fund consume and replenish cash. The FY 2014 cash plan includes all expected collections and disbursements from the operations of both the Supply Management and Industrial Operations activity groups, including appropriations and transfers. Chart 2 below displays collections and disbursements from operations and does not include appropriations and transfers. The change in collections from FY 2013 to FY 2014 is due to lower projected Supply Management sales to operating forces in Southwest Asia.

Chart 2 - Cash from Operations



## Cash Transfers

Since FY 2004 approximately \$6.9 billion transferred from the AWCF. Table 6 below provides the amount and the details of each transfer.

Table 6 - Cash Transfers

Year	Transfer To	Amount (\$ Millions)	Reason
FY 2004	OMA	1,300.0	OIF/OEF <sup>4</sup>
	DECA	41.6	DOD Decision
	OMA	107.0	Congressionally Directed
FY 2005	OMA	700.0	OIF/OEF
FY 2007	WTCV	107.0	MRAP <sup>5</sup> procurement
	RDTE	38.7	GFEBS <sup>6</sup>
FY 2008	OMA	420.0	Congressionally Directed
	MPA	30.0	MPA FY 2005 PCS <sup>7</sup>
	OMA	141.4	OIF/OEF
	OMA	658.7	OIF
	MPA	45.5	MPA FY 2008 Payroll
	NGPA	154.3	NGPA <sup>8</sup> over-strength
FY 2009	MPA	200.0	MPA FY 2008 PCS/Payroll
	OMA	823.0	Congressionally Directed
FY 2010	OMA	150.0	Congressionally Directed
	MPA	130.3	MPA FY 2005 MERHCF <sup>9</sup>
FY 2011	OMA	700.0	Congressionally Directed
FY 2012	OMA	600.0	OEF
	OMA	515.0	Congressionally Directed
	OMA	25.2	MEDCOM <sup>10</sup>
<b>Total Transfers</b>		<b>\$6,887.7</b>	

<sup>4</sup> (OIF/OEF) Operation Iraqi Freedom/Operation Enduring Freedom

<sup>5</sup> (MRAP) Mine Resistant Ambush Protected vehicle

<sup>6</sup> (GFEBS) General Fund Enterprise Business System

<sup>7</sup> (MPA PCS) Military Personnel, Army Appropriation Permanent Change of Station

<sup>8</sup> (NGPA) National Guard Military Personnel, Army Appropriation

<sup>9</sup> (MERHCF) Medicare-Eligible Retiree Health Care Fund

<sup>10</sup> (MEDCOM) United States Army Medical Command war reserve secondary items



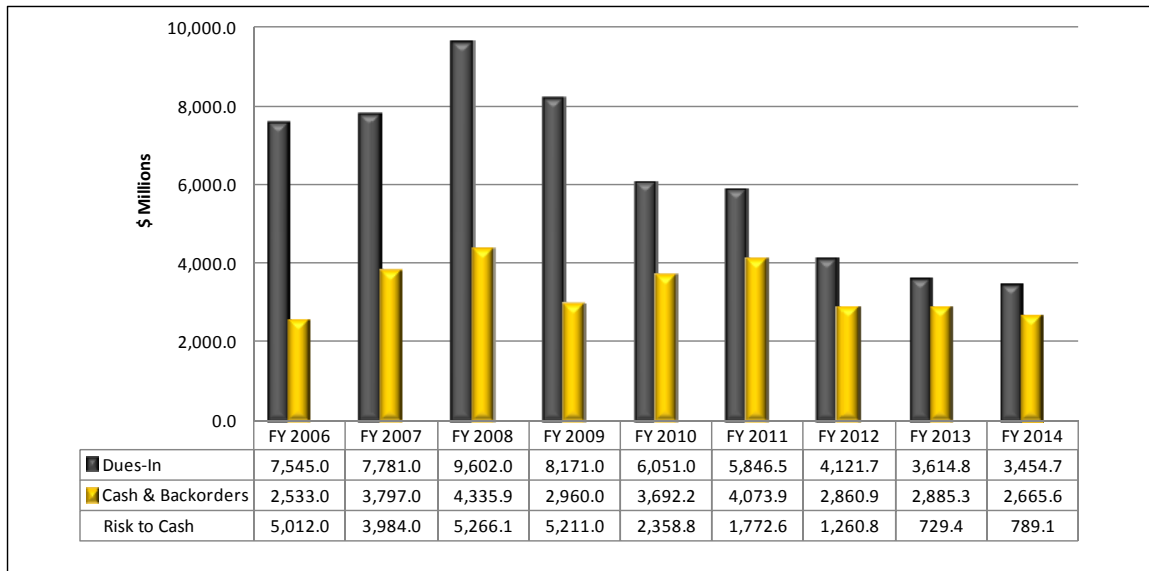


The amounts transferred were used to assist other Army programs and were excess to AWCF requirements at the time of transfer. Through FY 2014 and the near future, no transferred cash must be returned; however, as future budgets are developed, some of this transferred cash may require reimbursement to support payments to commercial vendors when undelivered orders are received. The Army has helped mitigate the effect of these cash transfers by not allowing credit for carcasses returned by operating units in Afghanistan and by holding the Supply Management unit cost below 1.0 for an extended period.

Base Realignment and Closure 2005 directed transfer of consumable item management to Defense Logistics Agency (DLA). DLA is reimbursing Army for consumable item on order and delivered after the transfer date. The AWCF expects to receive cash transfers of \$154.0 million and \$118.0 million from DLA in FY 2013 and FY 2014, respectively.

Chart 3 below displays the potential risk to the AWCF cash balance. Based on the projected cash balance and undelivered orders there is a low risk in FY 2014.

Chart 3 - Risk to Cash



Note: FY 2013 and FY 2014 are projected



## Appropriations

The AWCF has received or requested direct appropriations to purchase secondary items for Army Prepositioned Stocks (APS). War reserve secondary items support combat weapon systems prepositioned in the five APS locations. Overseas Contingency Operations funds are requested for secondary items to accompany the placement of Mine Resistant Ambush Protected vehicles into war reserve stocks. Table 7 below shows the appropriations received or requested by AWCF.

Table 7 - Appropriations

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>War Reserve Secondary Items</b>			
<i>Base Funding</i>	101.2	60.0	25.2
<i>Overseas Contingency Operations</i>	54.0	42.6	44.7
<b>Total Appropriated Funds</b>	<b>155.2</b>	<b>102.6</b>	<b>69.9</b>

## End of Year Cash Balance

Table 8 below shows total collections, disbursements, appropriations, transfers, and ending cash balances. The Army's operating cash target is 7 to 10 days. The FY 2014 cash balance is projected to be within the target. Although no advance billings are included in the budget submission, the Supply Management rate includes a negative cash surcharge of \$244.4 million in FY 2014.

Table 8 - Cash Balance

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<i>Disbursements</i>	12,478.2	11,446.1	10,833.3
<i>Collections</i>	12,897.2	11,138.9	10,601.8
<i>Net Outlays from Operations</i>	(419.0)	307.3	231.5
<i>Direct Appropriations</i>	155.2	102.6	69.9
<i>Transfers In</i>	0.0	154.0	118.0
<i>Transfers Out</i>	1,140.2	0.0	0.0
<i>Total Net Outlays</i>	566.0	50.6	43.6
<b>Ending Cash Balance</b>	<b>1,334.5</b>	<b>1,283.8</b>	<b>1,240.2</b>
<i>10 days Cash Level</i>	1,563.9	1,991.4	1,433.7
<i>7 days Cash Level</i>	1,360.6	1,266.9	951.0

Note: Positive net outlays decrease cash. Numbers may not add due to rounding.



# Capital Budget

The AWCF activities develop and maintain operational capabilities by acquiring or replacing production equipment, executing minor construction projects, and developing software. New equipment is acquired to replace obsolete and unserviceable equipment, modernize production and maintenance processes, and eliminate environmental hazards. The cost of capital projects is recouped through depreciation expenses included in customer rates. Unlike the operating budget which contains the annual operating costs of each activity, the capital budget justifies the purchase of assets that equal or exceed a unit cost of \$250,000 and have a useful life of two or more years.

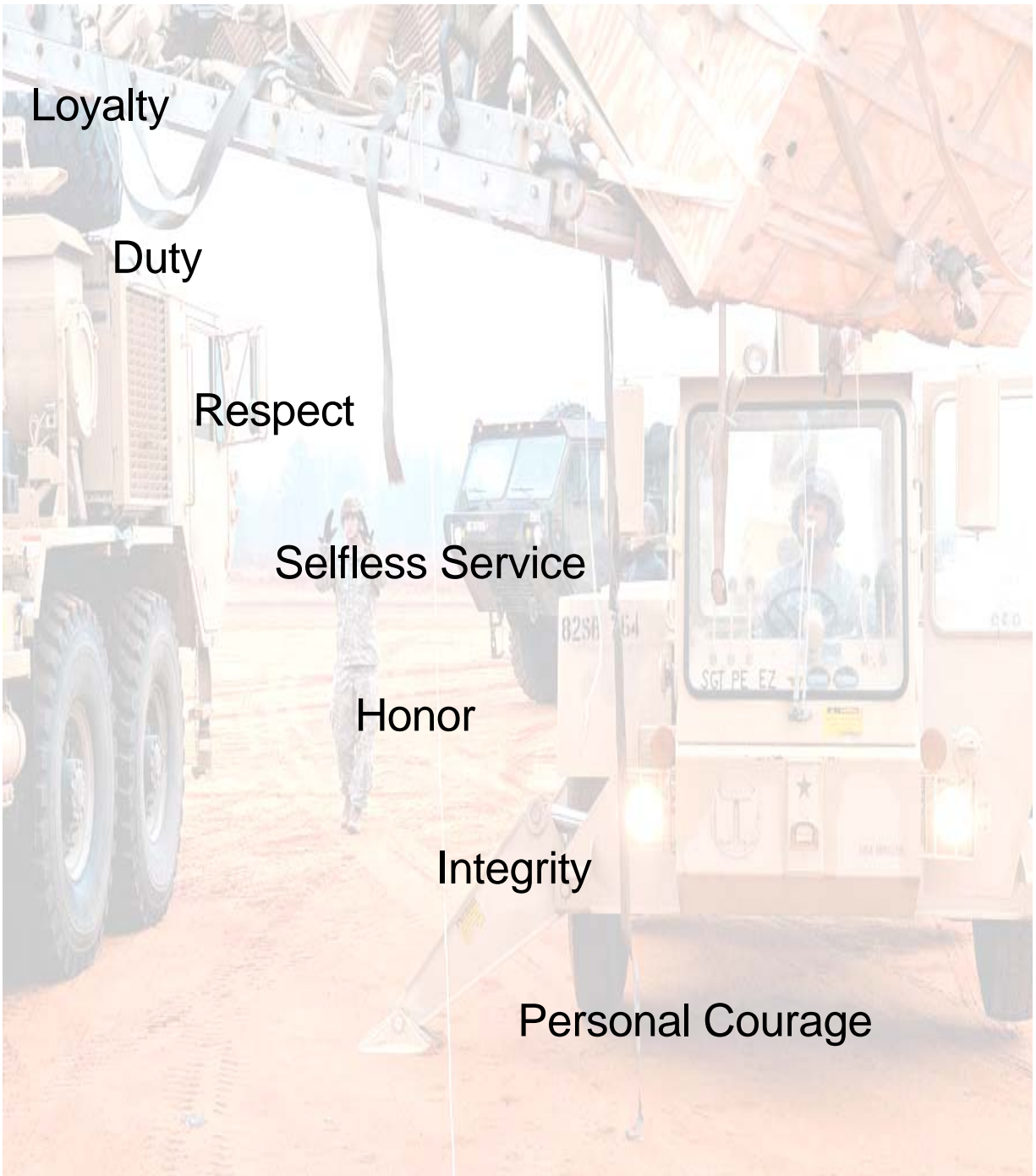
A more in-depth discussion and detailed exhibits are provided in the Capital Budget section. Table 9 summarizes the AWCF capital investment program request.

Table 9 - Capital Budget

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Supply Management</b>	32.6	59.2	71.8
<b>Industrial Operations</b>	201.3	200.0	178.1
<i>Total Capital Budget</i>	233.9	259.2	249.9
<i>Total Cash Outlays</i>	208.5	232.0	248.6



# The Army Values



Loyalty

Duty

Respect

Selfless Service

Honor

Integrity

Personal Courage



# Supply Management

## Introduction

The Supply Management activity group operates in a business-like environment by relying on sales revenue rather than appropriations to finance continuing operations. This enterprise uses contract authority to procure and repair spare parts. As suppliers deliver equipment components, the Army Working Capital Fund expends cash and places spare parts in inventory to await customer demands. Filled customer demands result in the collection of sales revenue, which replenishes cash. The bulk of demands originate from Operation and Maintenance, Army customers, primarily Army operating forces, who request spare parts to maintain combat equipment readiness. The Supply Management enterprise synchronizes rates and budget assumptions with Army appropriated funding requests in support of Soldier and weapon systems readiness.

**Mission:**  
**Provide the Army with inventory management of spare and repair parts in support of equipment sustainment, operational readiness, and combat capability.**

The Army prices spare parts based on the most recent acquisition cost from a commercial vendor or the most recent repair cost from a contract or organic source of repair. The price of each item includes a surcharge, known as the cost recovery rate (CRR), to recover the cost of AWCF operations. The CRR is set to:

- Recover the activity's overhead costs such as payroll, supplies, contracts, storage, transportation, and depreciation
- Maintain a sufficient cash corpus to cover operating disbursements and six months of capital disbursements
- Break even over time

The core financial measures for Supply Management are the net operating result (NOR) and accumulated operating result (AOR). The NOR measures the activity's gain or loss within a single fiscal year and is used to monitor how closely the activity performs compared to its budget. The AOR measures the activity's accumulated gains and losses since the fund's inception. Rates are set during budget development to break even by bringing the AOR to zero over a budget cycle. This method returns accumulated gains through reduced rates and recovers accumulated losses through increased rates. Another core financial measure, the unit cost relates operating costs to each dollar of sales. The unit cost can be set at, above, or below 1.0 depending on projected sales volume. This metric is discussed in detail in the Unit Cost section.





## Efficiencies and Business Process Improvements

Cost efficiency is an inherent attribute of the Army Working Capital Fund. The revolving fund construct promotes total cost visibility, full cost recovery, and fosters a business-like, competitive atmosphere. In the same way that commercial businesses focus on their bottom line profit, Supply Management activities focus on their net operating result and other indicators to gauge the efficiency of their operations. Supply Management customers have benefited from direct efficiency goals and initiatives conducted in FY 2012 such as quarterly Senior Executive led due diligence reviews of inventory, and a continued emphasis on controlling overhead costs. In accordance with the DOD and the Office of Management and Budget emphasis on efficiencies, Supply Management has incorporated reductions for specific overhead elements, such as travel.

Supply Management is also engaged in a Lean Six Sigma (LSS) project that focuses on aligning the inventory requirement forecasting process with inventory execution. The LSS partnership with the Army logistics community will improve the forecasting process and the accuracy of budgetary exhibits.

## Inventory Management

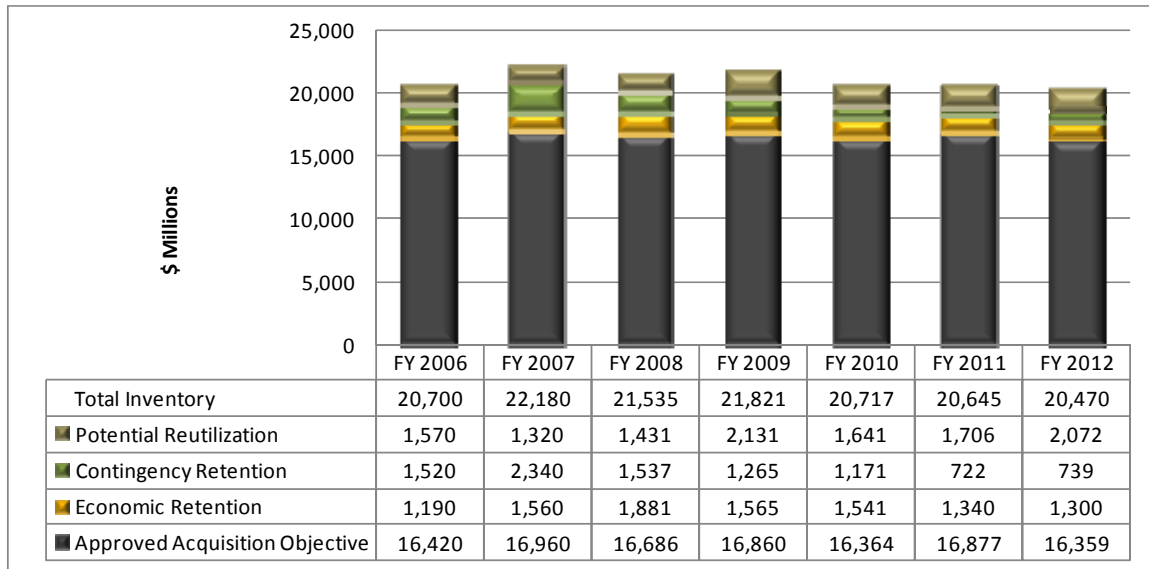
The Army calculates inventory requirements monthly based on projected demands and inventory levels. The quarterly stratification of inventory report (STRAT) is a point-in-time logistical view of inventory requirements and assets. The STRAT aligns inventory to fourteen requirements levels that are consolidated into four inventory segments: approved acquisition objective (AAO); economic retention stock; contingency retention stock; and potential reutilization stock. The AAO segment includes all inventory, both serviceable and unserviceable, and war reserve stocks needed for up to three years of demand from all customers. Inventory for essential items not meeting demand stockage criteria and inventory for end-of-item-life procurements is also included in the AAO. The economic retention segment includes inventory that is beyond the AAO level, but is determined by a mathematical model to be more



economical to retain vice dispose. The contingency retention segment includes inventory that Army item managers retain for weapon system programs, foreign military sales, and diminishing manufacturing sources. Assets on-hand that do not stratify to the approved acquisition objective, economic retention stock or contingency retention stock segments will be stratified to potential reutilization stock for disposal review and validation by item managers.

The stratification of inventory report (STRAT) values all Army-managed items (AMI) inventory at full standard price, regardless of repair condition. It does not reflect non-Army managed items (NAMI) inventory included on exhibit SM 4, *Inventory Status*. The SM 4 reflects the financial value of inventory using the accounting principle of moving average cost for AMI and latest acquisition cost for NAMI. Chart SM 1 – Total Inventory displays the segmentation of AMI inventory at standard price from the September STRAT for each fiscal year.

Chart SM 1 – Total Inventory



The Army continuously takes proactive measures to ensure that future inventory levels are accurately forecasted to meet future demands. The Army will continue to review and validate its requirements versus inventory levels to ensure it is buying and repairing items that are needed by its customers, and not retaining excess inventory.



## Functional Description

Supply Management buys and manages an operating inventory of Army-Managed and non-Army managed spare and repair parts for sale to customers. It also maintains a protected inventory of spares in Army Prepositioned Stocks (APS). The AWCF operating inventory is stored and maintained primarily at three types of locations:

- Tactical – at more than 200 battalion supply support activities (SSA) under the control of Sustainment Brigade Commanders. These Soldier-manned SSA provide spares supporting the immediate needs of combat and combat support battalions and companies. The quantity of inventory items is limited to an amount capable of transport by unit organic vehicles or aircraft.
- Installation – at more than 150 Army installation SSA under the control of the installation Director of Logistics. These activities provide a means to retrograde unneeded materiel from tactical SSA to meet other Army requirements. They also stock back-up inventory to meet tactical units' requirements that exceed storage capacity. When deployed to a contingency theater of operations, tactical activities receive back-up support from a theater distribution center established by the deployed force command to centrally receive, redistribute, and retrograde spares as required.
- National – at Defense Logistics Agency distribution depots and Army maintenance depots. This inventory provides a source of rapid replenishment to lower level stockage locations and for the immediate needs of the Army's maintenance depots.

The AWCF protected inventory is contained in the APS located in the United States, Europe, South Korea, Kuwait, and stored aboard ships afloat off Guam and Diego Garcia. Prepositioned war reserve materiel is retained in protected inventory and released to outfit combat and combat support units deploying to perform combat, peacekeeping, or other contingency operations.

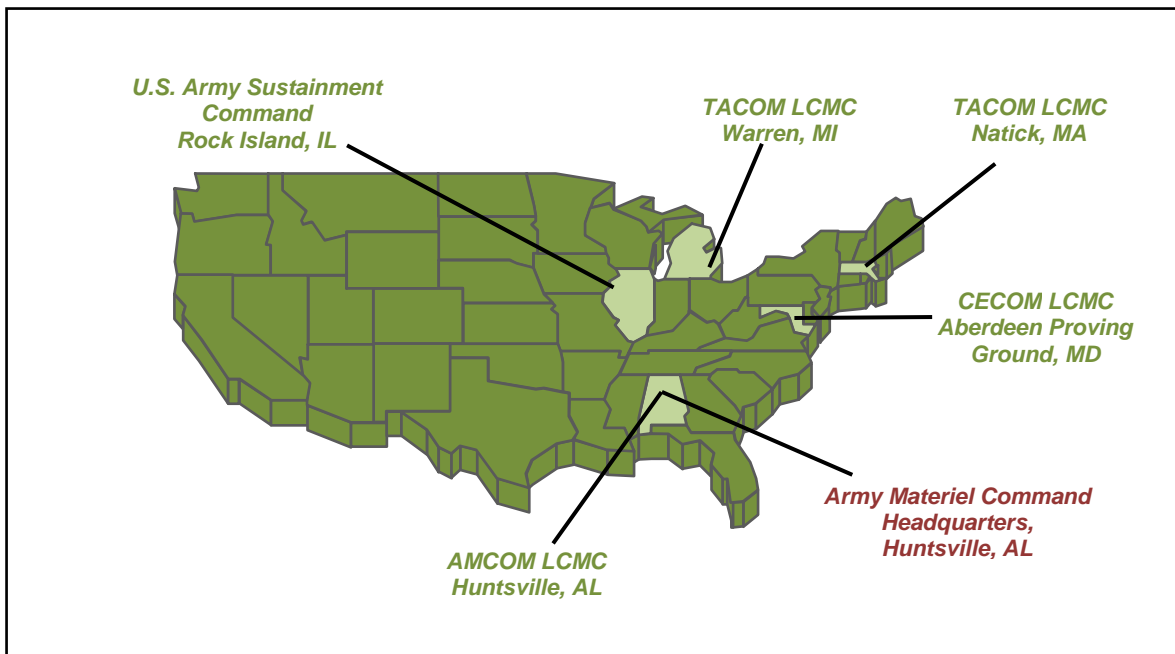




## Activity Group Composition

Figure SM 1 below displays the locations of Headquarters, U.S. Army Materiel Command (AMC), each Life Cycle Management Command (LCMC) Headquarters, and the U.S. Army Sustainment Command (ASC). Each LCMC acquires and manages consumable supplies and spare parts for distinct categories of weapon systems. ASC acquires and maintains the Army Prepositioned Stocks, which contain materiel from each LCMC.

Figure SM 1 - Supply Management locations



The AMC mission is complex and ranges from developing sophisticated weapon systems, to advanced research, to maintaining and distributing spare parts. AMC's mission is best summarized by three core competencies: acquisition excellence, logistics power projection, and technology generation and application. To develop, buy, and maintain state-of-the-art materiel for the Army, AMC works closely with industry, colleges and universities, the other Services, and other government agencies.

The TACOM LCMC (Tank-automotive and Armaments LCMC) primary mission is to develop, acquire, field, and sustain Soldier and ground systems through the integration of effective and timely acquisition, logistics, and cutting-edge technology. The TACOM LCMC item managers support a diverse set of product lines through their life cycles, ranging from tracked combat and wheeled tactical vehicles, armaments, and watercraft, to Soldier-specific gear and biological/chemical equipment. Major weapon systems supported include the M1 Abrams Tank,



M2 Bradley Fighting Vehicle, Mine Resistant Ambush Protected (MRAP) Vehicle, HMMWV, and Stryker Armored Vehicle. TACOM Life Cycle Management Command (LCMC) has the clothing and heraldry mission that is responsible for providing clothing and heraldry products to Soldiers, units, and veterans. Included in the TACOM LCMC is a small retail business of high demand non-Army managed items (NAMI). NAMI overhead operations, including 10 civilian personnel, will fully transition to the AWCF in FY 2014. With an authorized level of 814 civilian personnel in FY 2014, TACOM LCMC Headquarters activities are located at Detroit Arsenal in Warren, Michigan and U.S. Army Soldier Systems Center in Natick, Massachusetts.

The AMCOM LCMC (Aviation and Missile LCMC) mission is to develop, acquire, field, and sustain aviation, missile, and unmanned vehicle systems, and to ensure



Petroleum specialists fueled an OH-58 Kiowa Warrior and manned the fire extinguisher.

system readiness with seamless transition to combat operations. Major weapon systems supported include the AH-64 Apache, UH-60 Black Hawk, CH-47 Chinook, OH-58 Kiowa Warrior, Multiple Launch Rocket System, and Patriot missile. With an authorized level of 535 civilian personnel in FY 2014, AMCOM LCMC Headquarters is located at Redstone Arsenal in Huntsville, Alabama. AMCOM has operational control of all aviation logistic management functions at Fort Rucker, Alabama, home of the Army Aviation Center.

The CECOM LCMC (Communications-Electronics LCMC) Headquarters mission is to develop, acquire, field, and sustain

Command, Control, Communications, Computers, and Intelligence, Surveillance, and Reconnaissance capabilities for the Army. With an authorized level of 686 personnel in FY 2014, CECOM LCMC Headquarters is located at Aberdeen Proving Ground, Maryland.

The U.S. Army Sustainment Command (ASC) mission is to synchronize distribution and sustainment of materiel to and from the field. Army Prepositioned Stocks are acquired and maintained as a part of this mission. These stocks include combat equipment and supplies and humanitarian mission stocks at worldwide land and sea-based positions. The ASC is located at Rock Island Arsenal, Illinois.



# Budget Highlights

## Assumptions

The budget represents a business plan that supports Soldier and weapon systems readiness for both peacetime training and wartime operating requirements. FY 2014 estimates assume reduced troop strength and lower OPTEMPO level in Operation Enduring Freedom (OEF) of approximately 40 percent of FY 2012 OEF levels. This results in lower levels of supply demands and sales. If OPTEMPO levels during the year of execution exceed budget estimates, variability target is included in the budget to ensure supply contract authority is available to remain ready and responsive to changing operational requirements. Variability target is further discussed in the Operating Contract Authority section.

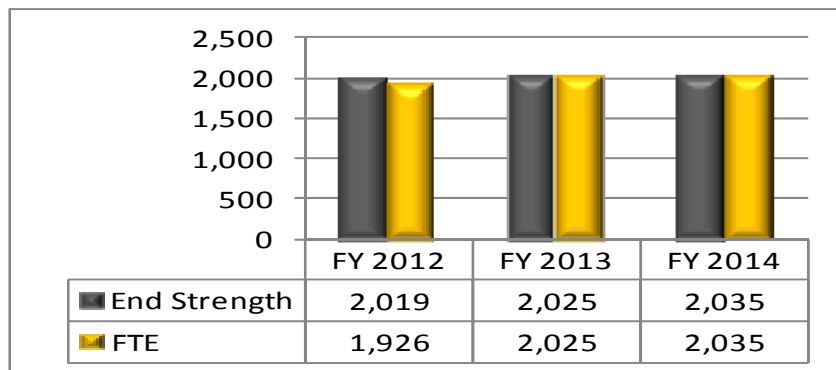


A combat observation lasing team called in illumination rounds from nearby mortars during a training exercise at Fort Bragg, NC.

## Personnel

Civilian end strength in FY 2014 reflects the transfer of 10 civilian spaces overseeing the non-Army managed items mission from appropriated funds to the AWCF. Manpower levels include secondary item managers, logistics management specialists, and general and administrative support positions. Military end strength is three in FY 2014.

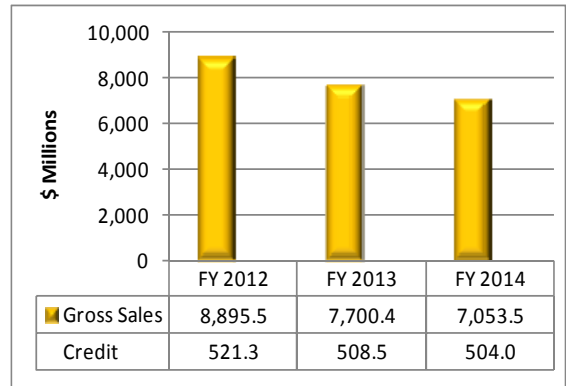
Chart SM 2 - Civilian Personnel



## Sales

Sales and credit in this submission are impacted by reduced Overseas Contingency Operations (OCO) activity. Sales reflect income from operations and do not include direct appropriations for war reserve materiel and inventory augmentation. Currently, credit is not allowed for materiel returns in theater. Sales are displayed on several exhibits: Fund 14, *Revenue and Costs*, Fund 11, *Source of New Orders and Revenue*, and SM 1, *Supply Management Summary* (sales net of credit).

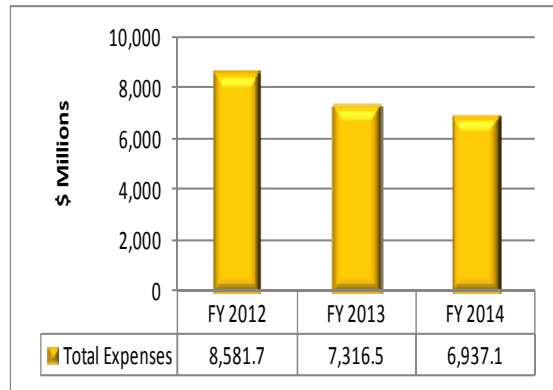
Chart SM 3 - Gross Sales



## Expenses

Total expenses are projected to decrease in FY 2014 due to reductions in cost of goods sold. Variable operations costs, such as transportation and storage, are also anticipated to decrease in conjunction with reduced OCO sales. Continued emphasis on efficiencies and reduced rates for Defense Logistics Agency services will result in decreased fixed overhead expenses in FY 2014. Expenses are displayed on exhibit Fund 14, *Revenue and Costs*.

Chart SM 4 - Expenses

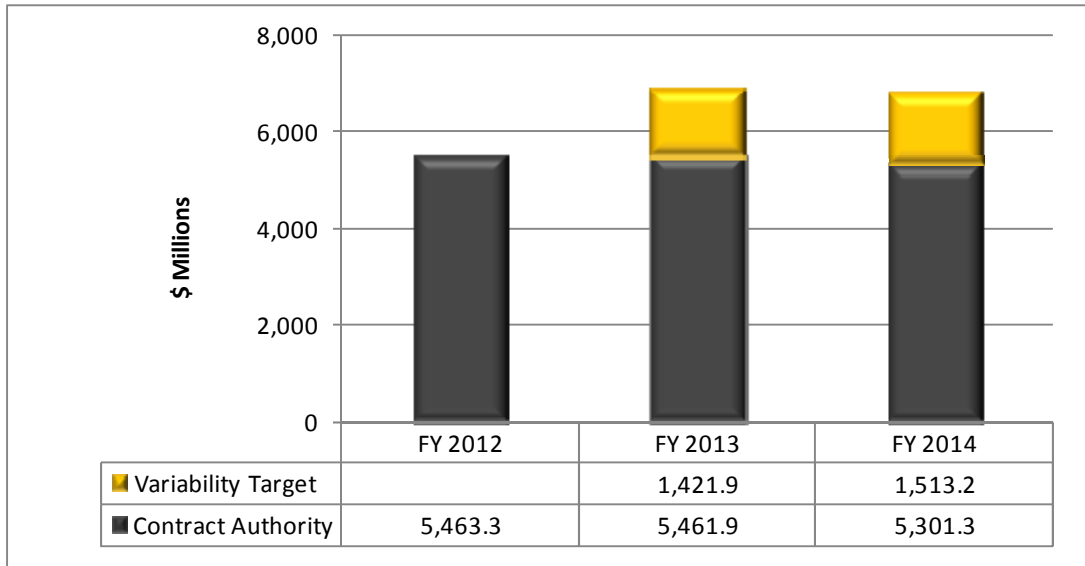


## Operating Contract Authority (Hardware)

This budget requests operating contract authority for the acquisition and repair of replenishment spare parts and for the cost of operating the Supply Management enterprise. Contract authority requirements are projected to decrease in FY 2014 in anticipation of reduced customer demands due to lower OPTEMPO. Variability target is the projected amount of additional cost authority beyond budgeted levels reflected on exhibit SM 1 that would allow for rapid response to variances in costs or changes in customer demands during the execution year if needed. Operating contract authority is displayed on exhibits SM 1, *Supply Management Summary* and SM 3b, *Operating Requirements by Weapon System*.



Chart SM 5 - Contract Authority

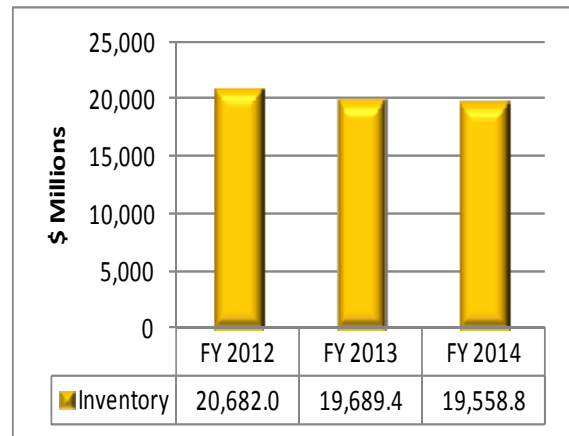


## Inventory

Inventory values shown in chart SM 6, include operational inventory, carcasses awaiting repair, inventory required beyond the budget year, economic and contingency retention stock, and secondary items included in war reserve. Spares inventory levels are sufficient to ensure high stock availability for war efforts. Supply Management is continuing its effort to decrease inventory by reducing inactive inventory, disposing of dormant stock, and reducing replenishment below sales. Financial values of inventory include non-Army managed items (NAMI) at latest acquisition cost and Army-managed items at moving average cost.

Moving average cost is the valuation method used in the Logistics Modernization Program (LMP). NAMI inventory will migrate to LMP in FY 2014. Total inventory is understated by \$1.2 billion due to an abnormal accounting value for NAMI inventory in FY 2012. This abnormal balance will be corrected in FY 2013. Supply Management will continue working to reduce on-order and on-hand excess inventory. Inventory is displayed on exhibit SM 4, *Inventory Status*.

Chart SM 6 - Inventory



## Operating Results

The net operating result (NOR) represents the difference between revenue and expenses within a fiscal year. The accumulated operating result (AOR) represents the summation of all operating gains and losses since activity group inception along with any prior period adjustments. The AWCF operates on a break-even basis during the budget cycle. To prevent a significant rate increase to our customers, Supply Management is using projected excess cash to minimize rate increases in FY 2014. The Supply Management activity will not recover \$487.8 million of FY 2014 AOR. In the next budget cycle, Supply Management will evaluate its AOR projections, cash position, and impact on FY 2015 rates to determine the amount of AOR to recover. The NOR and AOR are displayed on exhibit Fund 14, *Revenue and Costs*.

Table SM 1 - Operating Results

(\$ Millions)	FY 2012	FY 2013	FY 2014
Net Operating Result	(207.5)	(124.6)	(387.6)
Non-Recoverable AOR	0.0	0.0	487.8
Accumulated Operating Result	24.4	(100.2)	0.0

## Cost Recovery Rate

The Supply Management cost recovery rate (CRR) is set to recover full costs. Typical costs recovered include civilian pay, distribution depot costs, transportation costs, other Defense bills associated with supply operations, and costs of replacing inventory washouts. The CRR calculation in FY 2014 has changed to reflect a DOD standardized rate-setting methodology. This new method changes the basis of overhead allocation from materiel costs to sales revenue. The FY 2014 CRR includes a negative cash surcharge of \$244.4 million due to projected excess cash, as well as reduced rates for Defense Logistics Agency services. The DOD standardized rate-setting methodology also changed the price change to customer calculation. The price change to customer is now expressed as the change in overhead costs weighted by sales revenue and is not weighted by the change in sales volume.

Table SM 2 – Cost Recovery Rate and Price Change

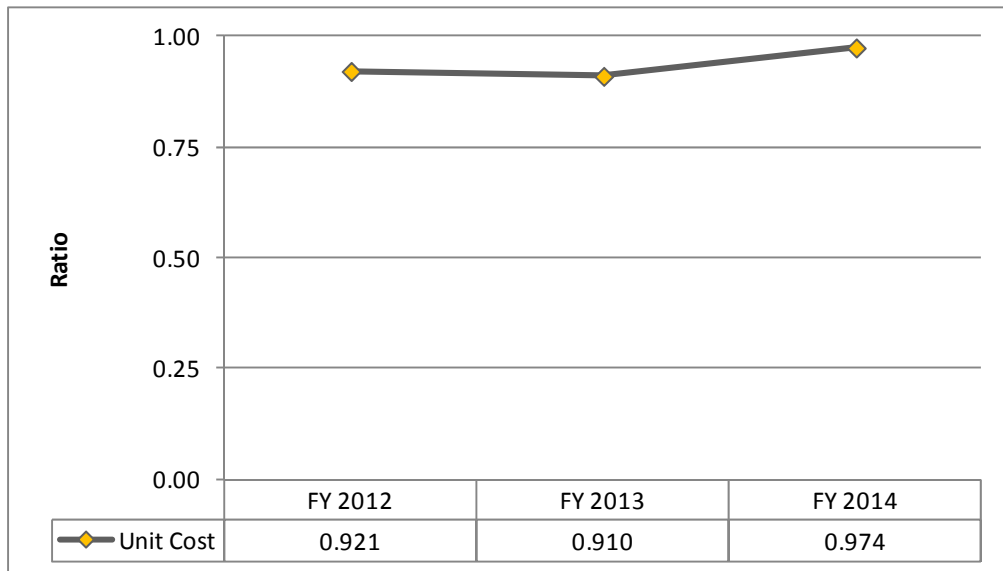
	FY 2012	FY 2013	FY 2014
Cost Recovery Rate (Previous Method)	14.1%	12.8%	
Cost Recovery Rate (Standardized Method)			16.2%
Price Change to Customer (Previous Method)	1.3%	(1.1%)	
Price Change to Customer (Standardized Method)			(2.8%)



## Unit Cost

The unit cost is a metric to relate operating costs to each dollar of sales. As recommended in the Government Accountability Office (GAO) report 10-480, the Army continues to evaluate and adjust the unit cost as necessary to support contingency operations. A unit cost equal to 1.0 means there is a one-for-one replacement of inventory sold. A unit cost below 1.0 means that the enterprise is reducing inventory by selling and not replenishing. A unit cost above 1.0 means that Supply Management is growing inventory levels by buying above the current sales level. The unit cost of less than 1.0 from FY 2012 through FY 2014 indicates a consistent effort to constrain inventory based on projected declining sales volume. This submission reflects a budgeted unit cost that may not be fully executed. Chart SM 7 shows unit cost for FY 2012 through FY 2014.

Chart SM 7 - Unit Cost



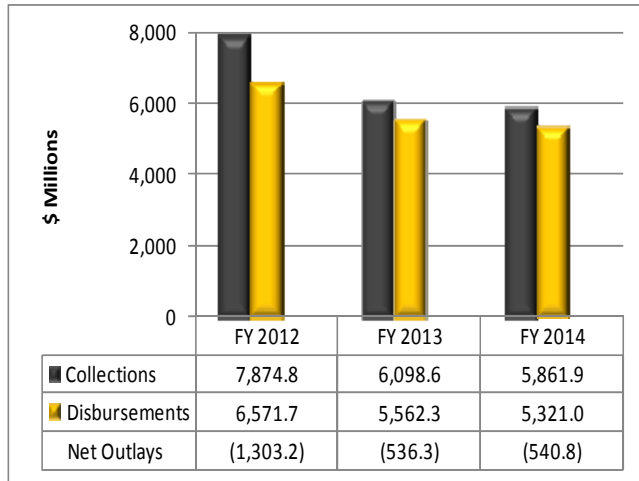
$$\text{Unit cost} = \frac{\text{Obligations} + \text{Credit} + \text{Depreciation expense}}{\text{Gross sales}}$$



## Collections, Disbursements, and Outlays

Collections are projected based on sales and changes in accounts receivable. Disbursements are projected based on monthly operating expenses, changes in accounts payable, and Capital Investment Program obligations. Under the internal work performed process in the Logistics Modernization Program (LMP), there are no collections or disbursements between the Supply Management and Industrial Operations activity groups as LMP treats both entities as one company. This business process happens to result in a decreased net outlay for the Supply Management activity, which is balanced by an increased net outlay for the Industrial Operations activity.

Chart SM 8 - Cash Management

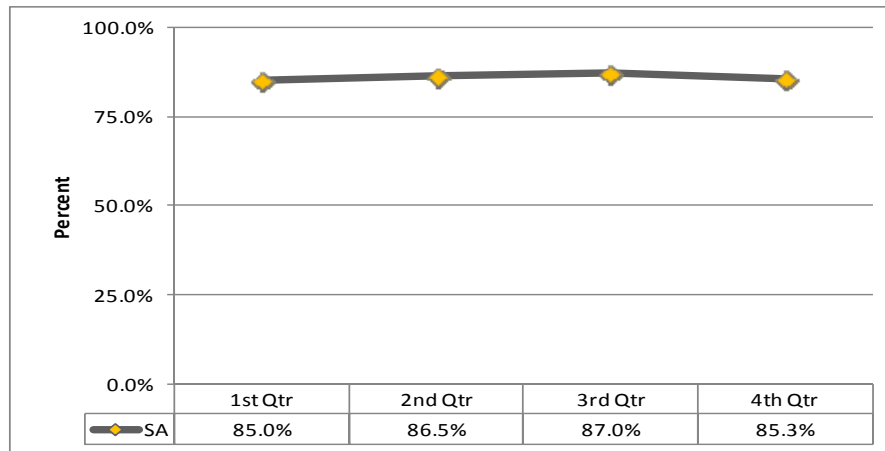


## Performance Measurement

### Stock Availability

Supplying and maintaining the Army's equipment remain key components of readiness. Stock availability is administered through adequate funding of hardware, proper management of the supply chain, and reliable oversight of materiel stockage requirements. Chart SM 9 displays stock availability at the end of each quarter in FY 2012 as at or above the 85 percent goal.

Chart SM 9 – Stock Availability (SA)

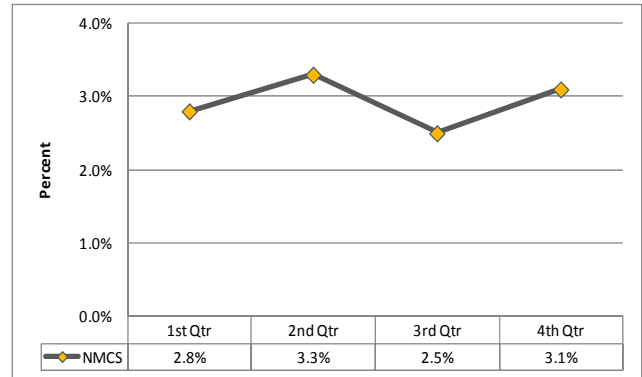




## Non-Mission Capable Rate, Supply

The non-mission capable rate, supply (NMCRS) value represents the percent of time a weapon system is not mission capable due to lack of critical spare parts. The AWCF goal is to maintain NMCRS at or below five percent. Chart SM 10 shows composite NMCRS rates achieved at the end of each quarter in FY 2012. NMCRS by weapon system is displayed on exhibit SM 3b, *Operating Requirements by Weapon System*.

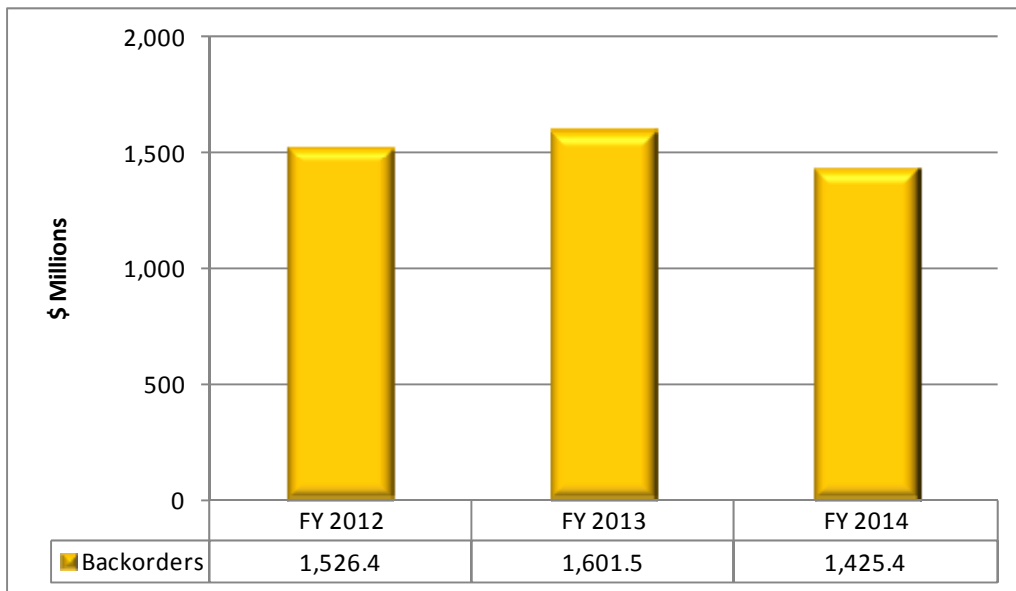
Chart SM 10 - Non-Mission Capable Rate, Supply



## Customer Backorders

Backorders are expected to decrease through FY 2014 with reductions due to both materiel deliveries and reduced demands from Overseas Contingency Operations customers. Customer backorders for the end of each fiscal year are displayed on exhibit Fund 11, *Source of New Orders and Revenue*.

Chart SM 11 – Customer Backorders



## Supply Management Workload

Table SM 3 below displays Supply Management workload drivers. The decreases in requisitions received and issues completed are based on deployed force activity assumptions. A standardized method to report workload drivers was developed after the deployment of the Logistics Modernization Program to the Life Cycle Management Commands and is reflected in this submission.

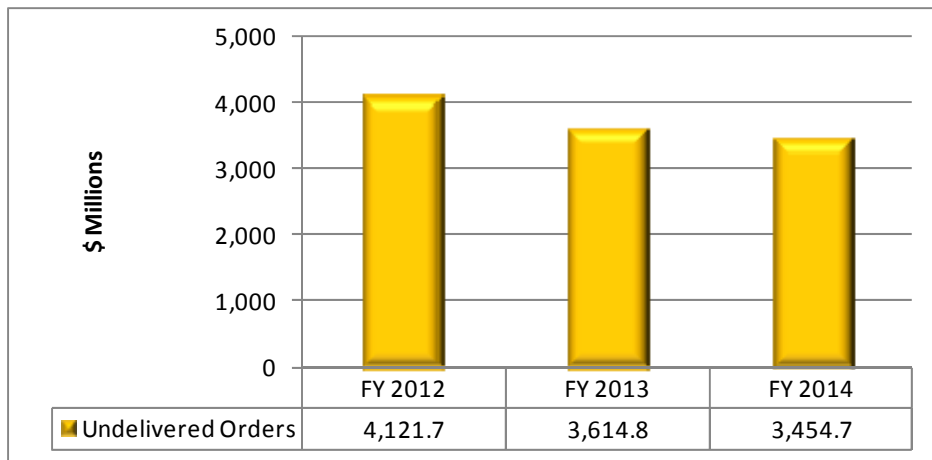
Table SM 3 - Supply Management Workload

Supply Management Workload	FY 2012	FY 2013	FY 2014
Types of Items Managed	103,800	110,386	108,506
Requisitions Received	771,935	652,354	602,136
Issues Completed	594,236	578,849	531,772
Procurement Receipts	50,780	67,855	64,505
Contracts Awarded	14,333	13,878	13,073

## Undelivered Orders

Undelivered orders represent goods and services ordered, but not yet received by the AWCF. A sufficient cash balance is required to pay suppliers upon receipt of these orders. As shown in the chart below, undelivered orders are projected to decrease through FY 2014 due to continued materiel deliveries and decreased new materiel obligations based on lower deployed force assumptions.

Chart SM 12 - Undelivered Orders



# Appropriations

War reserve equipment positioned without secondary items would significantly jeopardize the Army's ability to complete its combat missions successfully. The secondary items purchased for war reserves support important combat weapon systems such as M1 Abrams Tank, M2 Bradley Fighting Vehicle, artillery howitzers, rocket launchers, and HMMWV. FY 2012 through FY 2014 Overseas Contingency Operations (OCO) funds are requested to purchase secondary items to accompany the placement of Mine Resistant Ambush Protected Vehicles into war reserve stocks. The Army began transferring war reserve inventory for the U.S. Army Medical Command from AWCF to general funds in FY 2012. Starting in FY 2013, funding for this requirement is requested as part of the Operation and Maintenance, Army budget. Appropriations are displayed on exhibit Fund 14, *Revenue and Costs*. War reserve inventory is displayed on exhibits SM 4, *Inventory Status* and SM 6, *War Reserve Materiel*.

Table SM 4 - Appropriations

(\$ Millions)	FY 2012	FY 2013	FY 2014
War Reserve Secondary Items	101.2	60.0	25.2
OCO Funds	54.0	42.6	44.7
Total Appropriated Funds	155.2	102.6	69.9

***War reserve secondary items improve Army's ability to meet global missions by sustaining the deployed combat force until CONUS-based re-supply commences.***



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Revenue and Costs  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<b>Revenue</b>			
AMI Sales	6,972.0	6,048.4	5,536.6
NAMI Sales	1,910.0	1,650.0	1,514.8
AMC MOB Sales	13.4	2.0	2.0
<b>Total Gross Sales</b>	<b>8,895.5</b>	<b>7,700.4</b>	<b>7,053.5</b>
Credit and Allowances	521.3	508.5	504.0
<b>Net Sales</b>	<b>8,374.1</b>	<b>7,191.9</b>	<b>6,549.5</b>
<b>Other Income</b>	<b>155.2</b>	<b>102.6</b>	<b>69.9</b>
War Reserve-Secondary Items	155.2	102.6	69.9
<b>Total Income</b>	<b>8,529.3</b>	<b>7,294.6</b>	<b>6,619.3</b>
<b>Costs</b>			
<b>Cost of Materiel Sold from Inventory</b>			
AMI	5,741.8	4,778.6	4,494.3
NAMI	1,645.6	1,407.4	1,288.8
AMC MOB	13.4	2.0	2.0
<b>Total Cost of Materiel Sold from Inventory</b>	<b>7,400.9</b>	<b>6,188.0</b>	<b>5,785.1</b>
Inventory Losses/Obsolescence	87.5	90.4	84.8
<b>Salaries and Wages Total</b>	<b>193.8</b>	<b>194.7</b>	<b>198.4</b>
Military Personnel Compensation & Benefits	0.2	0.2	0.2
Civilian Personnel Compensation & Benefits	193.6	194.6	198.3
Travel & Transportation of Personnel	2.0	1.6	1.6
Materiel & Supplies (For Internal Operations)	0.4	0.8	0.8
Equipment	0.0	1.0	1.0
Other Purchases from Revolving Funds	305.4	281.8	258.7
Transportation of Things	104.6	103.0	113.7
Depreciation - Capital	84.2	86.9	86.9
Printing and Reproduction	0.0	0.0	3.4
Advisory and Assistance Services	17.6	6.8	7.5
Rent, Communication, Utilities & Misc. Charges	1.3	5.7	5.7
Other Purchased Services	384.0	355.9	389.4
<b>Total Costs</b>	<b>8,581.7</b>	<b>7,316.5</b>	<b>6,937.1</b>
<b>Operating Result</b>	<b>(52.3)</b>	<b>(21.9)</b>	<b>(317.7)</b>
Other Changes Affecting NOR:			
Less Direct Funding	(155.2)	(102.6)	(69.9)
<b>Net Operating Result</b>	<b>(207.5)</b>	<b>(124.6)</b>	<b>(387.6)</b>
Prior Year AOR	231.9	24.4	(100.2)
Non-Recoverable AOR	0.0	0.0	487.8
<b>Accumulated Operating Result</b>	<b>24.4</b>	<b>(100.2)</b>	<b>0.0</b>

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Source of New Orders and Revenue  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<b>1. New Orders</b>			
<b>a. Orders from DOD Components:</b>			
Department of Army			
Operation & Maintenance, Army	5,838.3	5,792.2	5,013.0
Operation & Maintenance, ARNG	621.8	486.2	536.8
Operation & Maintenance, AR	75.7	84.1	70.0
<b>Subtotal, O&amp;M:</b>	<b>6,535.8</b>	<b>6,362.4</b>	<b>5,619.8</b>
Industrial Operations Business	315.5	521.7	415.3
Procurement Appropriations	247.7	135.7	119.3
RDT&E	1.4	2.6	2.3
All Other Army	52.5	108.5	100.7
<b>Subtotal, Department of the Army:</b>	<b>7,152.9</b>	<b>7,130.9</b>	<b>6,257.3</b>
Department of Navy	116.5	107.0	125.7
Department of Air Force	222.7	197.7	193.9
US Marine Corps	78.3	67.4	54.7
Other Department of Defense	60.7	30.5	25.9
<b>Subtotal, Other DoD Services:</b>	<b>478.1</b>	<b>402.6</b>	<b>400.2</b>
<b>b. Total DOD</b>	<b>7,631.0</b>	<b>7,533.5</b>	<b>6,657.6</b>
<b>c. Other Orders:</b>			
FMS	232.9	234.2	212.6
Other Federal Agencies	5.6	6.7	4.1
All Other	23.4	1.1	3.2
<b>Subtotal, Other Federal Agencies:</b>	<b>261.9</b>	<b>242.0</b>	<b>219.8</b>
<b>Total New Orders</b>	<b>7,892.9</b>	<b>7,775.5</b>	<b>6,877.4</b>
2. Carry-In Orders (Back Orders From Prior Years)	2,173.4	1,526.4	1,601.5
3. Total Gross Orders	10,066.3	9,301.9	8,478.9
3a. Adjustment to Backorders	355.6	0.0	0.0
4. Less Carry out	1,526.4	1,601.5	1,425.4
<b>5. Gross Sales</b>	<b>8,895.5</b>	<b>7,700.4</b>	<b>7,053.5</b>
6. Less Credit and Allowances	521.3	508.5	504.0
<b>7. Net Sales</b>	<b>8,374.1</b>	<b>7,191.9</b>	<b>6,549.5</b>

Narrative: FY 2012 carryout includes an adjustment to Backorders as a result of journal vouchers processed by DFAS to correct a system error which occurred in December FY 2012.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Supply Management Summary  
(\$ in Millions)**

	<b>Net Customer Orders</b>	<b>Net Sales</b>	<b>Operating Contract Authority</b>	<b>Direct Appn</b>	<b>Total Authority</b>
<b>Non-Army Managed Items (NAMI)</b>					
<i>FY 2012</i>	1,808.0	1,909.7	1,533.5	0.0	1,533.5
<i>FY 2013</i>	1,781.5	1,649.5	1,445.0	0.0	1,445.0
<i>FY 2014</i>	1,633.3	1,514.3	1,324.0	0.0	1,324.0
<b>Army Managed Items (AMI)</b>					
<i>Aviation</i>					
<i>FY 2012</i>	2,618.9	3,226.7	2,169.0	0.0	2,169.0
<i>FY 2013</i>	2,553.5	2,611.3	2,160.5	6.2	2,166.7
<i>FY 2014</i>	2,227.1	2,461.9	2,209.2	2.0	2,211.2
<i>Communications-Electronics</i>					
<i>FY 2012</i>	989.7	1,036.4	551.3	16.2	567.5
<i>FY 2013</i>	949.8	894.8	525.0	4.4	529.4
<i>FY 2014</i>	803.8	796.9	540.6	5.9	546.5
<i>Missiles</i>					
<i>FY 2012</i>	193.2	305.6	170.2	0.0	170.2
<i>FY 2013</i>	267.5	280.6	170.0	3.3	173.3
<i>FY 2014</i>	204.9	209.8	173.0	3.0	176.0
<i>Tank-automotive &amp; Armaments</i>					
<i>FY 2012</i>	1,752.2	1,882.3	1,039.4	0.0	1,039.4
<i>FY 2013</i>	1,712.7	1,753.8	1,159.4	4.0	1,163.4
<i>FY 2014</i>	1,502.3	1,564.5	1,052.5	0.0	1,052.5
<b>Total AMI</b>					
<b><i>FY 2012</i></b>	<b>5,553.9</b>	<b>6,451.0</b>	<b>3,929.8</b>	<b>16.2</b>	<b>3,946.0</b>
<b><i>FY 2013</i></b>	<b>5,483.5</b>	<b>5,540.4</b>	<b>4,014.9</b>	<b>17.8</b>	<b>4,032.8</b>
<b><i>FY 2014</i></b>	<b>4,738.1</b>	<b>5,033.1</b>	<b>3,975.3</b>	<b>10.9</b>	<b>3,986.2</b>
<b>AMC Mobilization</b>					
<i>FY 2012</i>	9.7	13.4	0.0	139.0	139.0
<i>FY 2013</i>	2.0	2.0	2.0	84.8	86.8
<i>FY 2014</i>	2.0	2.0	2.0	59.0	61.0
<b>Total Hardware</b>					
<b><i>FY 2012</i></b>	<b>7,371.6</b>	<b>8,374.1</b>	<b>5,463.3</b>	<b>155.2</b>	<b>5,618.5</b>
<b><i>FY 2013</i></b>	<b>7,267.0</b>	<b>7,191.9</b>	<b>5,461.9</b>	<b>102.6</b>	<b>5,564.6</b>
<b><i>FY 2014</i></b>	<b>6,373.4</b>	<b>6,549.5</b>	<b>5,301.3</b>	<b>69.9</b>	<b>5,371.2</b>

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
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**Supply Management Summary  
(\$ in Millions)**

	<b>Net Customer Orders</b>	<b>Net Sales</b>	<b>Operating Contract Authority</b>	<b>Direct Appn</b>	<b>Total Authority</b>
<i>Cost of Operations (LOGOPS)</i>					
<i>FY 2012</i>			1,009.1	0.0	1,009.1
<i>FY 2013</i>			951.2	0.0	951.2
<i>FY 2014</i>			980.3	0.0	980.3
<i>Variability Target</i>					
<i>FY 2012</i>			0.0	0.0	0.0
<i>FY 2013</i>			1,421.9	0.0	1,421.9
<i>FY 2014</i>			1,513.2	0.0	1,513.2
<i>Enterprise Software Initiative</i>					
<i>FY 2012</i>			45.0	0.0	45.0
<i>FY 2013</i>			35.0	0.0	35.0
<i>FY 2014</i>			35.0	0.0	35.0
<b>Total Authority</b>					
<b><i>FY 2012</i></b>	<b>7,371.6</b>	<b>8,374.1</b>	<b>6,517.4</b>	<b>155.2</b>	<b>6,672.6</b>
<b><i>FY 2013</i></b>	<b>7,267.0</b>	<b>7,191.9</b>	<b>7,870.1</b>	<b>102.6</b>	<b>7,972.7</b>
<b><i>FY 2014</i></b>	<b>6,373.4</b>	<b>6,549.5</b>	<b>7,829.7</b>	<b>69.9</b>	<b>7,899.6</b>
<i>Capital Obligation Authority</i>					
<i>FY 2012</i>			32.6	0.0	32.6
<i>FY 2013</i>			59.2	0.0	59.2
<i>FY 2014</i>			71.8	0.0	71.8
<b>Total Authority</b>					
<b><i>FY 2012</i></b>	<b>7,371.6</b>	<b>8,374.1</b>	<b>6,550.0</b>	<b>155.2</b>	<b>6,705.2</b>
<b><i>FY 2013</i></b>	<b>7,267.0</b>	<b>7,191.9</b>	<b>7,929.3</b>	<b>102.6</b>	<b>8,031.9</b>
<b><i>FY 2014</i></b>	<b>6,373.4</b>	<b>6,549.5</b>	<b>7,901.5</b>	<b>69.9</b>	<b>7,971.4</b>
<b>Budget Authority</b>					
<i>Direct Appropriation-War Reserve</i>					
<i>FY 2012</i>			0.0	155.2	155.2
<i>FY 2013</i>			0.0	102.6	102.6
<i>FY 2014</i>			0.0	69.9	69.9
<b>Total Budget Authority</b>					
<b><i>FY 2012</i></b>			<b>0.0</b>	<b>155.2</b>	<b>155.2</b>
<b><i>FY 2013</i></b>			<b>0.0</b>	<b>102.6</b>	<b>102.6</b>
<b><i>FY 2014</i></b>			<b>0.0</b>	<b>69.9</b>	<b>69.9</b>

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Operating Requirements by Weapon System  
(\$ in Millions)**

	FY 2012		FY 2013		FY 2014	
	Obligations	NMCRS <sup>1</sup>	Obligations	NMCRS <sup>1</sup>	Obligations	NMCRS <sup>1</sup>
<i>AH-64, Apache</i>	404.9	3.6%	438.1	≤ 25.0%	438.9	≤ 25.0%
<i>CH-47D, Chinook</i>	316.7	3.4%	409.7	≤ 25.0%	349.5	≤ 25.0%
<i>UH-60, Black Hawk</i>	1,046.5	3.2%	1,016.8	≤ 25.0%	1,116.6	≤ 25.0%
<i>OH-58D, Kiowa Warrior</i>	225.7	0.6%	165.9	≤ 25.0%	180.0	≤ 25.0%
<i>Other Aviation</i>	175.2	0.0%	130.2	≤ 25.0%	124.2	≤ 25.0%
<i>MLRS</i>	21.8	3.3%	7.1	≤ 10.0%	4.9	≤ 10.0%
<i>Patriot</i>	144.4	4.5%	137.7	≤ 10.0%	138.5	≤ 10.0%
<i>Other Missile</i>	3.9	0.0%	25.2	≤ 10.0%	29.6	≤ 10.0%
<i>Firefinder</i>	17.9	1.5%	10.2	≤ 10.0%	9.2	≤ 10.0%
<i>Night Vision Goggles</i>	39.7	2.0%	43.5	≤ 10.0%	39.0	≤ 10.0%
<i>SINCGARS</i>	26.4	1.3%	26.2	≤ 10.0%	26.6	≤ 10.0%
<i>Other Communication-Electronics</i>	467.2	0.0%	445.1	≤ 10.0%	465.8	≤ 10.0%
<i>FMTV</i>	10.6	1.9%	17.2	≤ 10.0%	21.9	≤ 10.0%
<i>HEMTT</i>	18.3	1.4%	26.8	≤ 10.0%	25.6	≤ 10.0%
<i>HMMWV</i>	60.5	1.2%	67.4	≤ 10.0%	68.1	≤ 10.0%
<i>M109A6, Paladin</i>	15.8	2.1%	18.6	≤ 10.0%	13.8	≤ 10.0%
<i>M198, Towed Howitzer</i>	0.6	4.5%	0.8	≤ 10.0%	0.9	≤ 10.0%
<i>M1A1, Abrams Tank</i>	197.5	4.6%	167.9	≤ 10.0%	172.2	≤ 10.0%
<i>M1A2, Abrams Tank (SEP)</i>	17.6	3.7%	13.1	≤ 10.0%	18.5	≤ 10.0%
<i>M2/M3, Bradley Fighting Vehicle</i>	37.7	2.7%	19.2	≤ 10.0%	19.6	≤ 10.0%
<i>Stryker</i>	78.2	3.5%	94.7	≤ 10.0%	74.0	≤ 10.0%
<i>Other Tank-Automotive</i>	602.6	0.0%	733.5	≤ 10.0%	637.9	≤ 10.0%
<b>Subtotal</b>	3,929.8		4,014.9		3,975.3	
<i>NAMI</i>	1,533.5		1,445.0		1,324.0	
<i>AMC-MOB</i>	0.0		2.0		2.0	
<b>TOTAL</b>	5,463.3		5,461.9		5,301.3	

<sup>1/</sup> NMCRS - Non Mission Capable Rate. Supply represents the percent of time a weapon system is not mission capable due to lack of critical spare parts. The AWCF goal for NMCRS is at or below 5%. FY 2012 is actual data. FY 2013 and FY 2014 are the Army's goal for total weapon system readiness. Total weapon system readiness goals are 90% for ground and 75% for aircraft.



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
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**Inventory Status  
(\$ in Millions)**

	FY 2012			
	TOTAL	MOBILIZATION	DEMAND BASED	NON-DEMAND BASED
<b>1. INVENTORY BOP</b>	<b>23,829.5</b>	2,916.1	12,460.5	8,453.0
<b>2. BOP INVENTORY ADJUSTMENTS</b>				
A. RECLASSIFICATION (MEMO)	(79.8)	(60.0)	1,042.8	(1,062.6)
B. PRICE CHANGE AMOUNT (MEMO)	(434.9)	(6.4)	(216.9)	(211.6)
C. ADJ. INVENTORY BOP (1+2A+2B)	23,314.7	2,849.7	13,286.3	7,178.8
<b>3. PURCHASES</b>	<b>4,583.6</b>	45,560	4,538.0	0.0
<b>4. GROSS SALES</b>	<b>8,895.5</b>	0.000	8,895.5	0.0
<b>5. INVENTORY ADJUSTMENTS</b>				
A. CAPITALIZATION (+ OR -)	(142.5)	(107.3)	3.3	(38.5)
B. RETURNS FROM CUSTOMERS (+)	812.1	0.0	586.8	225.3
C. RETURNS FROM CUSTOMERS WITHOUT CREDIT (+)	3,881.0	0.0	2,864.9	1,016.1
D. RETURNS TO SUPPLIERS (-)	1.7	10.2	(6.7)	(1.8)
E. TRANSFERS TO DRMS (-)	(3,267.5)	(28.6)	(1,715.1)	(1,523.8)
F. ISSUES/RECEIPT W/O ADJ (+ OR -)	(146.1)	(16.0)	(21.2)	(108.9)
G. OTHER	540.6	29.2	1,645.4	(1,134.1)
H. TOTAL ADJUSTMENTS (5A THRU 5G)	1,679.2	(112.5)	3,357.4	(1,565.7)
<b>6. INVENTORY EOP (2c + 3 - 4 + 5h)</b>	<b>20,682.0</b>	2,782.7	12,286.3	5,613.1
<b>7. INVENTORY EOP</b>	<b>20,682.0</b>	2,782.7	12,286.3	5,613.1
A. ECONOMIC RETENTION (MEMO)				2,303.7
B. CONTINGENCY RETENTION (MEMO)				1,706.1
C. POTENTIAL DOD REUTILIZATION (MEMO)				1,603.3
<b>8. ON ORDER EOP @ COST</b>	<b>3,524.5</b>	280.9	3,243.6	0.0

**9. NARRATIVE:** The FY 2014 budget includes a blend of Inventory valued at Moving Average Cost (MAC) and Latest Acquisition Cost (LAC). The blend of inventory valuation is due to the conversion to LMP. Column "Non-Demand Based" includes inventory that stratifies beyond the budget year, economic and contingency retention stock, and inventory excess to the approved acquisition objective. The decapitalization of U.S. Army Medical Command war reserve secondary items inventory is included in the end of year projection. FY 2012 inventory is understated by \$1.2 billion due to an abnormal accounting value for NAMI inventory. This abnormal balance will be corrected in FY 2013.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
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**Inventory Status  
(\$ in Millions)**

	FY 2013			
	TOTAL	MOBILIZATION	DEMAND BASED	NON-DEMAND BASED
<b>1. INVENTORY BOP</b>	<b>20,682.0</b>	<b>2,782.7</b>	<b>12,286.3</b>	<b>5,613.1</b>
<b>2. BOP INVENTORY ADJUSTMENTS</b>				
A. RECLASSIFICATION (MEMO)	0.0	(1.8)	1,221.5	(1,219.8)
B. PRICE CHANGE AMOUNT (MEMO)	(4.0)	(4.6)	(42.8)	43.5
C. ADJ. INVENTORY BOP (1+2A+2B)	20,678.0	2,776.3	13,465.0	4,436.8
<b>3. PURCHASES</b>	<b>5,263.6</b>	<b>155.8</b>	<b>5,107.9</b>	<b>0.0</b>
<b>4. GROSS SALES</b>	<b>7,700.4</b>	<b>0.0</b>	<b>7,700.4</b>	<b>0.0</b>
<b>5. INVENTORY ADJUSTMENTS</b>				
A. CAPITALIZATION (+ OR -)	(71.8)	(43.4)	(24.6)	(3.8)
B. RETURNS FROM CUSTOMERS (+)	1,357.7	0.0	923.5	434.2
C. RETURNS FROM CUSTOMERS WITHOUT CREDIT (+)	3,868.2	1.9	2,312.6	1,553.7
D. RETURNS TO SUPPLIERS (-)	(2,095.8)	(56.5)	(800.9)	(1,238.4)
E. TRANSFERS TO DRMO (-)	(2,437.9)	(42.2)	(471.7)	(1,924.1)
F. ISSUES/RECEIPT W/O ADJ (+ OR -)	(90.7)	(21.7)	0.0	(69.0)
G. OTHER	918.5	6.7	97.9	813.9
H. TOTAL ADJUSTMENTS (5A THRU 5G)	1,448.2	(155.1)	2,036.9	(433.6)
<b>6. INVENTORY EOP (2c + 3 - 4 + 5h)</b>	<b>19,689.4</b>	<b>2,776.9</b>	<b>12,909.3</b>	<b>4,003.2</b>
<b>7. INVENTORY EOP</b>	<b>19,689.4</b>	<b>2,776.9</b>	<b>12,909.3</b>	<b>4,003.2</b>
A. ECONOMIC RETENTION (MEMO)				1,982.2
B. CONTINGENCY RETENTION (MEMO)				1,415.8
C. POTENTIAL DOD REUTILIZATION (MEMO)				605.2
<b>8. ON ORDER EOP @ COST</b>	<b>4,949.0</b>	<b>155.8</b>	<b>4,793.2</b>	<b>0.0</b>

**9. NARRATIVE:** The FY 2014 budget includes a blend of Inventory valued at Moving Average Cost (MAC) and Latest Acquisition Cost (LAC). The blend of inventory valuation is due to the conversion to LMP. Column "Non-Demand Based" includes inventory that stratifies beyond the budget year, economic and contingency retention stock, and inventory excess to the approved acquisition objective. The decapitalization of U.S. Army Medical Command war reserve secondary items inventory is included in the end of year projection.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Inventory Status  
(\$ in Millions)**

FY 2014				
	TOTAL	MOBILIZATION	DEMAND BASED	NON-DEMAND BASED
<b>1. INVENTORY BOP</b>	<b>19,689.4</b>	2,776.9	12,909.3	4,003.2
<b>2. BOP INVENTORY ADJUSTMENTS</b>				
A. RECLASSIFICATION (MEMO)	0.0	(65.1)	647.0	(582.0)
B. PRICE CHANGE AMOUNT (MEMO)	512.5	67.2	153.5	291.9
C. ADJ. INVENTORY BOP (1+2A+2B)	20,202.0	2,779.0	13,709.8	3,713.1
<b>3. PURCHASES</b>	<b>4,871.6</b>	77.4	4,794.2	0.0
<b>4. GROSS SALES</b>	<b>7,053.5</b>	0.0	7,053.5	0.0
<b>5. INVENTORY ADJUSTMENTS</b>				
A. CAPITALIZATION (+ OR -)	(56.4)	(30.0)	(25.3)	(1.0)
B. RETURNS FROM CUSTOMERS (+)	1,210.1	0.0	726.5	483.7
C. RETURNS FROM CUSTOMERS WITHOUT CREDIT (+)	3,906.4	1.7	1,658.7	2,246.0
D. RETURNS TO SUPPLIERS (-)	(2,156.9)	(76.5)	(700.0)	(1,380.4)
E. TRANSFERS TO DRMO (-)	(2,519.2)	(23.5)	(240.1)	(2,255.6)
F. ISSUES/RECEIPT W/O ADJ (+ OR -)	(69.7)	0.0	(34.1)	(35.5)
G. OTHER	1,224.4	6.0	179.5	1,038.9
H. TOTAL ADJUSTMENTS (5A THRU 5G)	1,538.7	(122.3)	1,565.0	96.0
<b>6. INVENTORY EOP (2c + 3 - 4 + 5h)</b>	<b>19,558.8</b>	2,734.1	13,015.6	3,809.1
<b>7. INVENTORY EOP</b>	<b>19,558.8</b>	2,734.1	13,015.6	3,809.1
A. ECONOMIC RETENTION (MEMO)				1,214.5
B. CONTINGENCY RETENTION (MEMO)				1,260.7
C. POTENTIAL DOD REUTILIZATION (MEMO)				1,333.9
<b>8. ON ORDER EOP @ COST</b>	<b>4,761.9</b>	133.0	4,628.9	0.0

**9. NARRATIVE:** The FY 2014 budget includes a blend of Inventory valued at Moving Average Cost (MAC) and Latest Acquisition Cost (LAC). The blend of inventory valuation is due to the conversion to LMP. Column "Non-Demand Based" includes inventory that stratifies beyond the budget year, economic and contingency retention stock, and inventory excess to the approved acquisition objective. The decapitalization of U.S. Army Medical Command war reserve secondary items inventory is included in the end of year projection.

**Army Working Capital Fund  
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**War Reserve Materiel  
(\$ in Millions)**

FY 2012			
	Total	WRM Protected	WRM Other
<b>1. Inventory Beginning of Period (BOP)</b>	2,916.1	2,855.1	61.0
2. Price Change	(6.4)	(6.5)	0.1
3. Reclassification	(60.0)	(60.0)	0.0
4. Inventory Changes			
a. Receipts	45.6	45.6	0.0
(1) Purchases	42.2	42.2	0.0
(2) Returns from customers	3.4	3.4	0.0
b. Issues	(18.4)	(18.4)	0.0
(1) Sales	0.0	0.0	0.0
(2) Returns to Suppliers	10.2	10.2	0.0
(3) Disposals	(28.6)	(28.6)	0.0
c. Adjustments	(94.1)	(94.1)	0.0
(1) Capitalizations	(107.3)	(107.3)	0.0
(2) Gains and losses	(16.0)	(16.0)	0.0
(3) Other	29.2	29.2	0.0
<b>5. Inventory End of Period (EOP)</b>	2,782.7	2,721.6	61.1
<b>6. STOCKPILE COSTS</b>			
a. Storage	0.0		
b. Manage	0.5		
c. Maintenance/Other	0.0		
<b>Total Costs</b>	0.5		
7. WRM Budget Request			
a. Additional WRM	155.2		
b. Replenishment/Repair WRM	0.2		
c. Stock Rotation/Obsolescence	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
<b>Total Request</b>	155.4		

NARRATIVE: The decapitalization of U.S. Army Medical Command war reserve secondary items inventory began in FY 2012. The transfer will take several years; inventory on order must be received so complete medical kits can be transferred.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**War Reserve Materiel  
(\$ in Millions)**

FY 2013			
	Total	WRM Protected	WRM Other
<b>1. Inventory Beginning of Period (BOP)</b>	2,782.7	2,721.6	61.1
2. Price Change	(4.6)	(4.6)	(0.0)
3. Reclassification	(1.8)	(1.8)	
4. Inventory Changes			
a. Receipts	157.6	157.6	0.0
(1) Purchases	155.8	155.8	0.0
(2) Returns from customers	1.9	1.9	0.0
b. Issues	(98.7)	(98.7)	0.0
(1) Sales	0.0	0.0	0.0
(2) Returns to Suppliers	(56.5)	(56.5)	0.0
(3) Disposals	(42.2)	(42.2)	0.0
c. Adjustments	(58.3)	(58.3)	0.0
(1) Capitalizations	(43.4)	(43.4)	0.0
(2) Gains and losses	(21.7)	(21.7)	0.0
(3) Other	6.7	6.7	0.0
<b>5. Inventory End of Period (EOP)</b>	2,776.9	2,715.8	61.1
6. STOCKPILE COSTS			
a. Storage	0.0		
b. Manage	0.5		
c. Maintenance/Other	0.0		
<b>Total Costs</b>	0.5		
7. WRM Budget Request			
a. Additional WRM	102.6		
b. Replenishment/Repair WRM	2.0		
c. Stock Rotation/Obsolescence	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
<b>Total Request</b>	104.6		

NARRATIVE: The decapitalization of U.S. Army Medical Command war reserve secondary items inventory began in FY 2012. The transfer will take several years; inventory on order must be received so complete medical kits can be transferred.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
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**War Reserve Materiel  
(\$ in Millions)**

FY 2014			
	Total	WRM Protected	WRM Other
<b>1. Inventory Beginning of Period (BOP)</b>	2,776.9	2,715.8	61.1
2. Price Change	67.2	67.2	(0.0)
3. Reclassification	(65.1)	(65.1)	0.0
4. Inventory Changes			
a. Receipts	79.1	79.1	0.0
(1) Purchases	77.4	77.4	0.0
(2) Returns from customers	1.7	1.7	0.0
b. Issues	(100.0)	(100.0)	0.0
(1) Sales	0.0	0.0	0.0
(2) Returns to Suppliers	(76.5)	(76.5)	0.0
(3) Disposals	(23.5)	(23.5)	0.0
c. Adjustments	(24.0)	(24.0)	0.0
(1) Capitalizations	(30.0)	(30.0)	0.0
(2) Gains and losses	0.0	0.0	0.0
(3) Other	6.0	6.0	0.0
<b>5. Inventory End of Period (EOP)</b>	2,734.1	2,673.1	61.1
6. STOCKPILE COSTS			
a. Storage	0.0		
b. Manage	0.5		
c. Maintenance/Other	0.0		
<b>Total Costs</b>	0.5		
7. WRM Budget Request			
a. Additional WRM	69.9		
b. Replenishment/Repair WRM	2.0		
c. Stock Rotation/Obsolescence	0.0		
d. Assemble/Disassemble	0.0		
e. Other	0.0		
<b>Total Request</b>	71.9		

NARRATIVE: The decapitalization of U.S. Army Medical Command war reserve secondary items inventory began in FY 2012. The transfer will take several years; inventory on order must be received so complete medical kits can be transferred.

# Industrial Operations

## Introduction

The Industrial Operations activity group is comprised of thirteen government-owned and operated installation activities, each with unique core competencies. Industrial Operations promotes business-like behavior by relying on revenue instead of direct appropriations to finance continuing operations. Customers purchase services from Industrial Operations activities. These services include, but are not limited to, repairing and upgrading equipment, producing weapons and munitions, and storing and demilitarizing materiel. The goal for the Industrial Operations activity is to generate enough revenue to recover the full cost of operations while breaking even over the long term.

The core financial measures for Industrial Operations are the net operating result (NOR) and accumulated operating result (AOR). The NOR measures the activity's gain or loss within a single fiscal year and is used to monitor how closely the activity performs compared to its budget. The AOR measures the activity's accumulated gains and losses since the fund's inception. Rates are set during budget development to break even by bringing the AOR to zero over a budget cycle. This method returns accumulated gains through reduced rates and recovers accumulated losses through increased rates. The rates are set to:

- Recover the activity's costs such as payroll, supplies, contracts, equipment, inventory, depreciation, and maintenance
- Maintain a sufficient cash corpus to cover operating disbursements and six months of capital disbursements
- Break even over time

The Industrial Operations activity relies heavily on customers funded by direct appropriations to support its operations. The activity synchronizes rates and budget assumptions with the appropriated funding levels of its customers. Reductions to customer appropriated funding requests impact the business by adversely affecting workloading decisions and projected staffing levels and may also affect equipment readiness of supported customers.

### **Mission:**

- **Provide an organic industrial capability to conduct depot level repair and upgrade**
- **Produce munitions and large caliber weapons**
- **Store, maintain, and demilitarize materiel for the Department of Defense**



## Efficiencies and Business Process Improvements

Cost efficiency is an inherent attribute of the AWCF. The revolving fund construct promotes total cost visibility, full cost recovery, and fosters a business-like, competitive atmosphere. In the same way that commercial businesses focus on their bottom line profit, Industrial Operations activities focus on their Net Operating Result and other indicators to gauge the efficiency of their operations. To increase efficiency and maintain their competitive edge, Industrial Operations activities have been fully engaged in cost-cutting and business process improvement initiatives for many years. Industrial Operations customers ultimately garner the benefit of these efficiencies through reduced turn-around times, lower prices, and increased throughput. Examples of these initiatives include:



Reworked 40mm rounds at McAlester Army Ammunition Plant saved \$28.6M in production costs during FY 2012.

- **Lean Six Sigma (LSS)**: LSS is a philosophy used in manufacturing to streamline and reduce variations in the production process. The U.S. Army Materiel Command (AMC) financial benefits from LSS initiatives averaged \$339 million per year since FY 2009. These benefits come in the form of hard savings from budgeted programs, cost avoidances, and increased capacity (e.g. throughput). The Industrial Operations activity either re-invests the financial benefits or passes them on to its customers in future budgets through lower rates. AMC currently has 22 Level II Certified Master Black Belts which equates to over one-third of the Army's Cadre and ensures AMC's program is self sufficient.
- **Value Engineering (VE)**: VE is a systematic process of function analysis identifying actions that reduce cost, increase quality, and improve mission capabilities across the entire spectrum of DOD systems, processes, and organizations. AMC has averaged over \$1.2 billion per year in cost savings and avoidances since FY 2009 from VE.
- **International Organization for Standardization (ISO)**: ISO is a worldwide federation of national standards bodies that independently audit and certify companies and organizations for conformance with established standards. The thirteen Industrial Operations activities currently hold thirty four ISO certifications for Quality Management Systems, International





Aerospace Quality Systems, Environmental Management Systems, and Occupational Safety and Health Administration Systems.

- **Capital Investment Program (CIP) Productivity Improvements:** Industrial Operations leverages investments in equipment and facilities that increase production capacity and efficiency. From FY 2012 to FY 2014, Industrial Operations has invested or plans to invest an average of \$47 million per year in productivity enhancing equipment, 50 percent of the CIP equipment investment overall.
- **Adaptable Workforce Structure:** Industrial Operations activities employ an adaptable workforce structure to maintain flexibility in response to shifting workload requirements. Activities adjust the size of their workforce through the judicious use of contractor, term and temporary personnel, and overtime to accommodate surges in workload.
- **Safety Improvements:** Improving safety is a high priority throughout the U.S. Army Materiel Command (AMC); it improves morale and productivity and reduces costs. The AMC Commanding General sets, publishes, and tracks progress toward safety goals each year. Tobyhanna Army Depot (TYAD), Corpus Christi Army Depot, McAlester Army Ammunition Plant, and Crane Army Ammunition Activity are recognized as Star sites in the Occupational Safety and Health Administration's Voluntary Protection Program (VPP). VPP participants must maintain an effective safety and health management system that meets rigorous performance-based criteria.
- **Energy and Water Savings Programs:** AMC has instituted a command wide policy to identify performance standards to reduce consumption of energy and water resources, achieve energy security and comply with DOD goals and objectives. Savings are being realized through the use of advanced metering programs, energy management and control systems and implementation for energy conservation measures. Longer term energy savings are expected from renewable energy sources. AMC's current energy conservation efforts include the installation of a 100,000 square foot vegetative roofing system at TYAD that will aid in cooling the work space with no increase in utility cost. The replacement of air compressors in two buildings at Letterkenny Army Depot with anticipated savings of \$1,700 per year in electric cost and upgrading a boiler system, saving an estimated \$1,200 annually in oil cost is also underway. Efforts are also planned to assist the Assistant Secretary of the Army for Installations, Energy and Environment Energy Initiatives Task Force in meeting a renewable energy goal of 1,000 megawatts (MW) of electricity production. AMC's contributions include a 10 MW direct use of geothermal energy and 80 MW of solar production at Sierra Army Depot.



Additional renewable systems planned include a 90 megawatts (MW) biomass, 200 MW solar array, and a 40 MW wind system at Tooele Army Depot. The Army Materiel Command installations are also pursuing third party financed energy and water projects using Energy Saving Performance Contracts. The initial effort for FY 2012 and following years include planned projects at McAlister Army Ammunition Plant, Anniston Army Depot, and Crane Army Ammunition Activity (CAAA). New military construction projects and facilities renovations are also applying sustainable design and development principles during the contract phase at all installations.

## Functional Description

The AWCF Industrial Operations activity group includes five depots, three arsenals, two munitions production facilities, and three storage sites. This activity group performs the following mission functions:

- Provides depot level maintenance, repair, and modernization of weapon systems and component parts
- Manufactures, renovates, and demilitarizes materiel
- Produces munitions and large caliber weapons
- Performs a full range of ammunition maintenance services for DOD and U.S. allies
- Performs ammunition receipt, storage, and issue functions

In addition to the mission functions, ten of the thirteen activities provide installation base support for both internal operations and tenant activities. Corpus Christi Army Depot and CAAA are tenants on Navy installations. Rock Island Arsenal receives installation base support from the Army Installation Management Command.

Industrial Operations activities collaborate with the private sector through formal public-private partnership agreements to perform work or utilize facilities and equipment. Under authority granted by Title 10, United States Code, § 2474, these partnerships create opportunities for both the public and private sectors by capitalizing on each other's strengths and efficiencies. The benefits to the Army and its customers include:



Corpus Christi Army Depot employees inspect a UH-60 Black Hawk during routine maintenance.



leveraging capacity; sustaining core maintenance capabilities; sharing of overhead costs; and enhancing technical expertise in the workforce. The benefits to private industry include access to specialized facilities, equipment and processes, and stimulating local economies. Current public-private partnership agreements are held with companies such as The Boeing Company, General Dynamics Land Systems, Sikorsky Aircraft Corporation, and Honeywell International.

The five hard-iron maintenance depots (Anniston, Corpus Christi, Letterkenny, Red River, and Tobyhanna) and Pine Bluff Arsenal, Rock Island Arsenal, Sierra Army Depot, and Tooele Army Depot are designated as Centers of Industrial and Technical Excellence (CITE) for the performance of core<sup>11</sup> maintenance workload in support of DOD and foreign allies. The CITE designation provides authority under Title 10, United States Code, § 2474 to partner with and lease facilities to industry on programs relating to core maintenance and technical expertise.

The Shingo Prize, administered by the Jon M. Huntsman School of Business at Utah State University, is the premier award for operational excellence world-wide. Since FY 2005, the U.S. Army Materiel Command has received thirty Shingo Prizes for various programs at its depots and arsenals, including eight at Red River Army Depot, seven at Letterkenny Army Depot, seven at Tobyhanna Army Depot, three at Rock Island Arsenal and two at Anniston Army Depot. This award recognizes industry leaders who promote world-class business and manufacturing processes that enable on-time delivery and customer satisfaction.

On-site examiners conduct Shingo Prize evaluations and score the following areas:

- Cost improvement
- Partnering practices with suppliers and customers
- Quality and results
- Innovation and development
- Environmental practices
- Vision and strategy
- Leadership & Empowerment
- Continuous improvement



M1151 High Mobility Multipurpose Wheeled Vehicle (HMMWV) in the process of being up-armored.

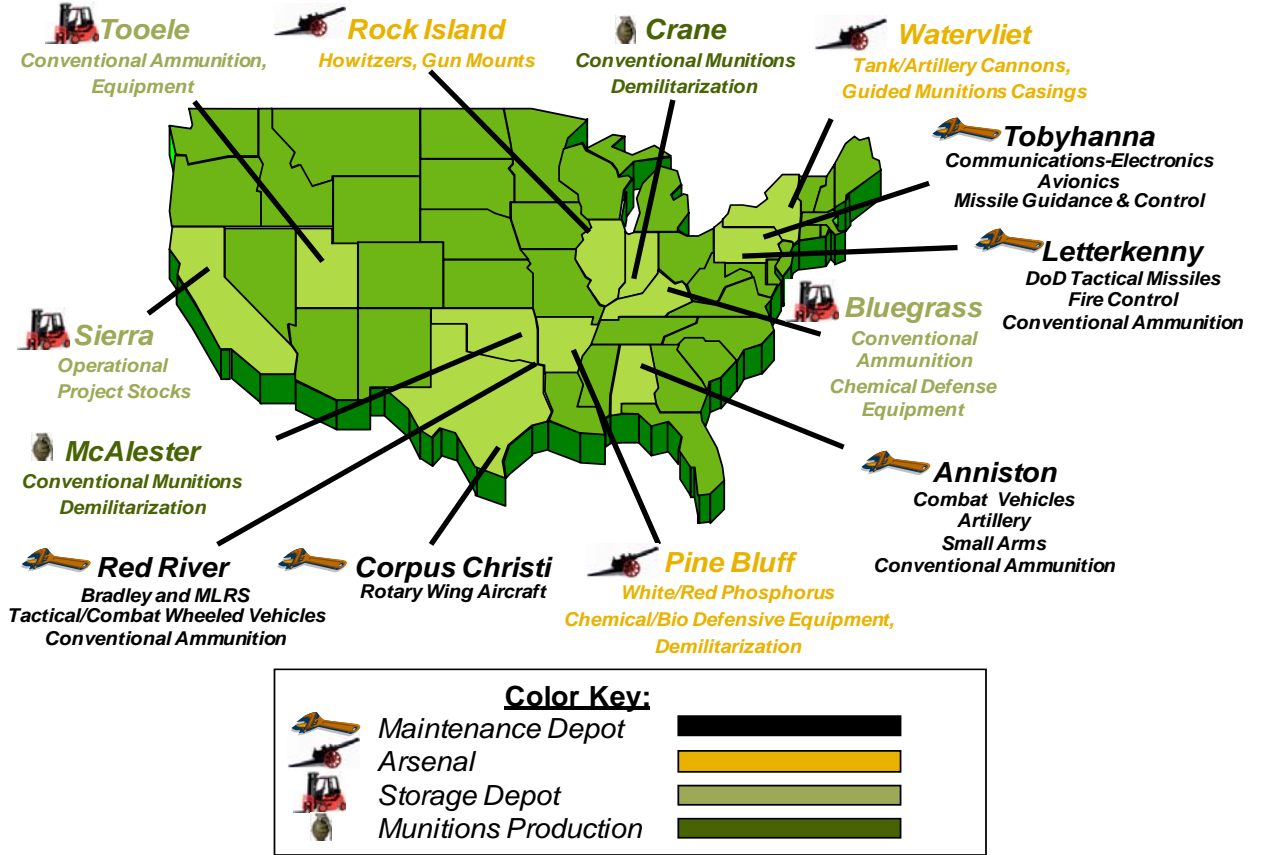
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<sup>11</sup> Title 10, United States Code, § 2464. Core Logistics Capabilities - Government-owned and Government-operated equipment and facilities required to ensure a ready and controlled source of technical competence and resources necessary to ensure effective and timely response to a mobilization, national defense contingency situations, and other emergency requirements.



# Activity Group Composition

Figure IO 1 - Industrial Operations Activity Group Composition



**The U.S. Army Materiel Command** is located in Huntsville, Alabama and serves as the management command for the Industrial Operations activity group. Installations or activities in this group fall under the direct command and control of the Life Cycle Management Commands each aligned in accordance with the nature of its mission. The following are descriptions of the Industrial Operations activities and their major core mission functions.



## Anniston Army Depot (ANAD)

**Location:** Anniston, Alabama

**2012 Workforce:** 3,289



**Description:** A vital part of the community since opening in 1942, the depot's annual economic impact is estimated to be \$1.1 billion and indirectly supports over 18,000 jobs in the Anniston area. It is the only Army depot capable of performing maintenance on both heavy and light-tracked combat vehicles, and their components. The depot is the designated Center of Industrial and Technical Excellence for the M1 Abrams Tank and is the primary depot for the repair of the Armored Vehicle Launched Bridge, and the M728 and M88 combat vehicles. ANAD also has responsibility for the overhaul of the M113 Family of Vehicles, Stryker, M9 Armored Combat Earthmover, small arms, and towed and self-propelled artillery. The depot is actively engaged in the Reset of equipment returning from operations in Southwest Asia, performing maintenance on individual and crew-served weapons, land combat missiles, and small arms. ANAD also provides installation support to attached organizations and assigned operating facilities.

## Blue Grass Army Depot (BGAD)

**Location:** Richmond, Kentucky

**2012 Workforce:** 910



**Description:** BGAD is a Strategic Mobility Power Projection ammunition depot with the mission to receive, store, issue, renovate, modify, maintain, and demilitarize conventional munitions for all DOD services. BGAD stores and manages all Army Special Operations Forces ammunition. The depot is DOD's primary center for surveillance, receipt, storage, issue, testing, and minor repair of Individual Protection Chemical Defense Equipment. Additionally, BGAD maintains an Industrial Services capability providing receipt, storage, cutting, and fabrication of raw materials and metal parts for high visibility programs such as the Mine Resistant Ambush Protected family of vehicles. Anniston Munitions Center, located at Anniston Army Depot, is under the command and control of BGAD and serves as a multifunctional production facility, primary missile storage and maintenance depot, and as a storage and demilitarization depot for other conventional ammunition items. BGAD also provides installation support to attached organizations and assigned operating facilities.



## Crane Army Ammunition Activity (CAAA)

**Location:** Crane, Indiana

**2012 Workforce:** 972



**Description:** CAAA serves as a primary ammunition storage and distribution site within the DOD for the U.S. Central and Northern regions. CAAA's mission is to produce and renovate conventional ammunition and ammunition-related components. This includes manufacturing, engineering, and product assurance in support of production. Other functions are storing, shipping, demilitarizing, and disposing of conventional ammunition and related items. CAAA's diverse manufacturing capabilities allow for the production of detonators weighing only 20 grams to 40,000 pound cast shock test charges. CAAA has extensive renovation and maintenance capabilities for conventional munitions and is the recognized center of excellence for the production of pyrotechnic devices including signal smoke, illuminating and infrared flares, and distress signals. Letterkenny Munitions Center, located at Letterkenny Army Depot, is under the command and control of CAAA. LEMC stores, maintains, distributes, and demilitarizes conventional ammunition.

## Corpus Christi Army Depot (CCAD)

**Location:** Corpus Christi, Texas

**2012 Workforce:** 4,103



**Description:** The CCAD mission is to overhaul, repair, modify, retrofit, test and modernize helicopters and associated components for government agencies and U.S. allies. CCAD serves as the depot training base for active duty Army, National Guard, Reserve, and foreign military personnel. CCAD provides worldwide on-site maintenance services, aircraft crash analysis, lubricating oil analysis, and chemical, metallurgical, and training support services to customers. Designated as the Center of Industrial and Technical Excellence for rotary-wing aircraft, CCAD supports the AH-64 Apache, UH-60 Black Hawk, CH-47 Chinook, OH-58 Kiowa Warrior, and HH-60 Pave Hawk helicopters. CCAD is also actively engaged in the Reset of equipment returning from operations in Southwest Asia.



## Letterkenny Army Depot (LEAD)

**Location:** Chambersburg, Pennsylvania

**2012 Workforce:** 1,681



**Description:** LEAD performs maintenance, modification, storage, and demilitarization operations on tactical missiles and ammunition. It has unique tactical missile repair capabilities supporting a variety of DOD missile systems including the Patriot and its ground support and radar equipment. LEAD is the designated Center of Industrial and Technical Excellence for air defense and tactical missile ground support equipment. In addition, it supports repair and maintenance on a multitude of generators and accommodates surge levels of repair and recapitalization for the High Mobility Multipurpose Wheeled Vehicle family. LEAD also provides installation support to attached organizations and assigned operating facilities.

## McAlester Army Ammunition Plant (MCAAP)

**Location:** McAlester, Oklahoma

**2012 Workforce:** 1,521



**Description:** MCAAP is located on 45,000 acres in southeastern Oklahoma. It has six ammunition production, maintenance and renovation complexes and is a major ammunition storage site for all branches of the Armed Forces. In addition, the plant has nearly 2,300 storage magazines and six million square feet of covered explosive storage space. MCAAP produces and renovates conventional ammunition, bombs, warheads, rockets, missiles, and ammunition-related components; performs engineering and product assurance in support of production; and receives, stores, ships, demilitarizes, and disposes of conventional and missile ammunition and related items. The Red River Munitions Center (RRMC), located at Red River Army Depot, is under the command and control of MCAAP. RRMC stores, maintains, and distributes conventional ammunition. MCAAP also provides installation support to attached organizations and assigned operating facilities.



## Pine Bluff Arsenal (PBA)

**Location:** Pine Bluff, Arkansas

**2012 Workforce:** 881



**Description:** With a local economic impact exceeding \$160 million annually, PBA produces, renovates, and stores more than 60 different conventional ammunition products ranging in caliber from 40 mm to 175 mm. Specialties include production of munitions containing payloads for smoke, non-lethal, riot control, incendiary, illumination, and infrared uses. Designated the Center of Industrial and Technical Excellence for Chemical and Biological Defense Equipment, PBA is a leader in the field of protective mask fabrication, repair, and re-certification, and represents the Army's sole facility for the repair and rebuild of a series of masks and breathing apparatus. It provides maintenance, upgrade, storage, and mission support for various mobile and powered Soldier support systems. PBA has strengthened business initiatives by forming public-private partnerships with the Clara Barton Center for Domestic Preparedness, and with the Department of Homeland Security. The arsenal also provides installation support to attached organizations and assigned operating facilities.

## Rock Island Arsenal-Joint Manufacturing and Technology Center (RIA-JMTC)

**Location:** Rock Island, Illinois

**2012 Workforce:** 1,547



**Description:** RIA-JMTC manufactures weapons, weapon components, and mobile maintenance systems. RIA-JMTC is currently producing the M119A2 Howitzer, Forward Repair System, Shop Equipment Contact Maintenance, as well as manufacturing artillery, gun mounts, recoil mechanisms, small arms, aircraft weapon sub-systems, and weapons simulators. In addition, it produces a host of spare and repair parts and demilitarizes containers. RIA-JMTC is the only multi-purpose and vertically integrated metal manufacturer in DOD and is a designated Center for Industrial and Technical Excellence for mobile maintenance systems and add-on-armor design, development, and prototype fabrication. The center possesses the unique technical expertise and equipment to manufacture high quality and sustainable products. RIA-JMTC strives to remain on the cutting edge of technological developments and has recently added titanium casting and composite armor production to its long list of metal manufacturing capabilities.





## Red River Army Depot (RRAD)

**Location:** Texarkana, Texas

**2012 Workforce:** 3,363



**Description:** RRAD's mission is to conduct ground combat, and tactical systems sustainment maintenance operations, and related support services worldwide for the Army, other DOD components, and allied nations. Systems supported include the Bradley Fighting Vehicle System (BFVS), Multiple Launch Rocket System (MLRS), Small Emplacement Excavator (SEE), five-ton dump truck, Heavy Expanded Mobility Tactical Truck, 25 ton crane, track and road wheels, HMMWV, M800 and M900 series trucks, and various configurations of trailers. In addition, it has been named as the depot source of repair for the Mine Resistant Ambush Protected vehicle. RRAD is designated as the Center of Industrial and Technical Excellence for tactical wheeled vehicles, BFVS, MLRS chassis, SEE, and rubber products necessary for depot maintenance missions. RRAD continuously engages in business process improvements to maximize both production capacity and flexibility to assume new programs. The depot has accommodated surge levels for repair and recapitalization of light and heavy tracked vehicles, road wheels and track, electronic systems, missile systems, towed and self-propelled artillery, tactical wheeled vehicles, and support equipment. RRAD also provides installation support to attached organizations and assigned operating facilities.

## Sierra Army Depot (SIAD)

**Location:** Herlong, California

**2012 Workforce:** 1,349



**Description:** SIAD provides a complete range of logistics support, as the Center of Industrial and Technical Excellence for Reverse Osmosis Water Purification Units as well as operational project stocks, including receipt, storage, repair, shipping, maintenance, containerization, and fabrication of assets. SIAD supports critical systems such as Deployable Medical Systems, Petroleum and Water Systems, strategic configured loads and Force Provider. SIAD is the redistribution point for containers of secondary items returning from Southwest Asia. It also provides installation support to attached organizations and assigned operating facilities.



## Tooele Army Depot (TEAD)

**Location:** Tooele, Utah

**2012 Workforce:** 463



**Description:** Designated as the Center of Industrial and Technical Excellence for Ammunition Peculiar Equipment (APE), TEAD is the life cycle engineering depot for the design, development, manufacturing and fielding of munitions systems and APE throughout the world. The depot receives, stores, issues, renovates, modifies, maintains, and destroys conventional munitions for all of DOD. TEAD provides America's joint fighting forces with munitions and APE in support of military missions before, during, and after any contingency. It also provides installation support to attached organizations and assigned operating facilities.

## Tobyhanna Army Depot (TYAD)

**Location:** Tobyhanna, Pennsylvania

**2012 Workforce:** 3,779



**Description:** TYAD is a full-service repair, overhaul, and fabrication facility for communications-electronics systems, equipment, and select missile guidance systems, and it provides for the maintenance, issue, and disposal of assigned commodities for DOD and other customers. It is designated as the Center of Industrial and Technical Excellence for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance, electronics, avionics, and missile guidance and control. TYAD is the Air Force Technology Repair Center for radio and satellite communication equipment, computers, air traffic control, surveillance, and range threat systems. The depot is also actively engaged in the Reset of equipment returning from operations in Iraq and Afghanistan. It provides installation support to attached organizations and assigned operating facilities.

## Watervliet Arsenal (WVA)

**Location:** Watervliet, New York

**2012 Workforce:** 602



**Description:** WVA produces armaments, mortars, recoilless rifles, howitzers and is recognized as the premier cannon-maker for the Army. This includes all life cycle support elements from research and development through prototype, manufacturing, testing support, legacy system support, and technical expertise. The guns manufactured at WVA provide the firepower for the Army's main battlefield tank, the M1A1 Abrams. WVA also provides installation support to attached organizations and assigned operating facilities.



# Budget Highlights

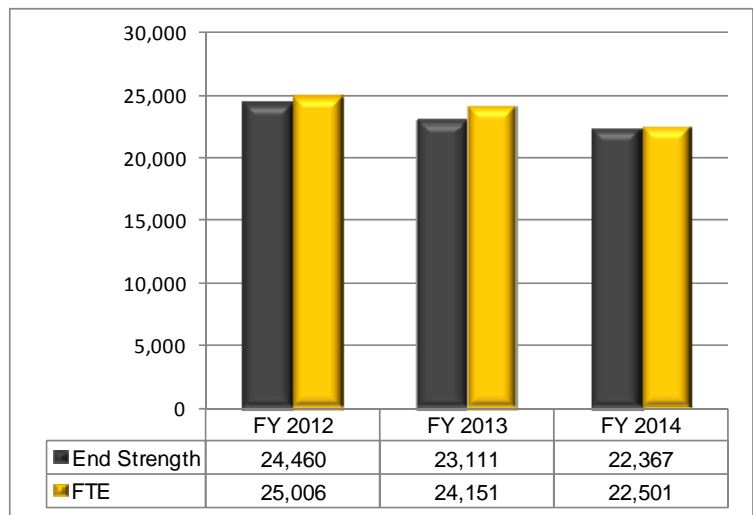
## Assumptions

This submission represents a business plan that supports equipment readiness requirements and assumes a lower OPTEMPO for the Nation's continued efforts in Overseas Contingency Operations. The budget reflects workload assumptions developed in coordination with our customers that support both baseline and Reset requirements. However, as unit rotations and weapon system delivery schedules shift, annual projections can change significantly. To offset these risks, the Industrial Operations activity remains poised to increase or decrease output in order to accommodate customers' changing demands.

## Personnel

Civilian end-strength represents the number of personnel employed at the end of each fiscal year. Full time equivalents represent the manpower level of effort necessary to accomplish the projected workload on an annual basis. The Industrial Operations labor pool includes a mix of permanent, temporary, and term-appointed employees, in addition to contract labor, which allow for workforce

Chart IO 1 - Civilian Personnel (excludes contractors)



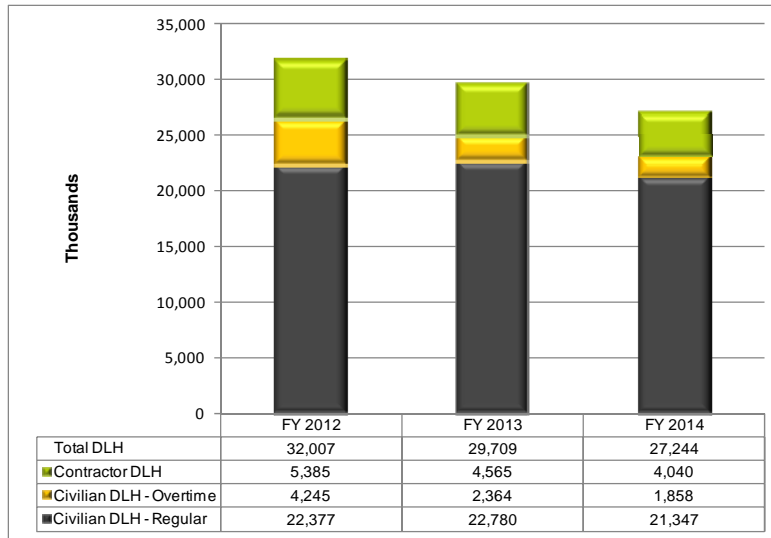
flexibility to accommodate workload changes. In addition to civilian personnel, the Industrial Operations activities employ 26 military personnel, which include primarily installation commanders, Sergeants Major, and test pilots.

Maintaining a trained and ready workforce is critical to this labor intensive business area. Industrial Operations activities engage in various intern and apprentice programs to help meet this requirement. Due to the specialized nature of the work and skill level requirements, training may require two to three years before an employee is able to perform specific tasks without supervision.



## Direct Labor Hour (DLH)

Chart IO 2 - Direct Labor Hours



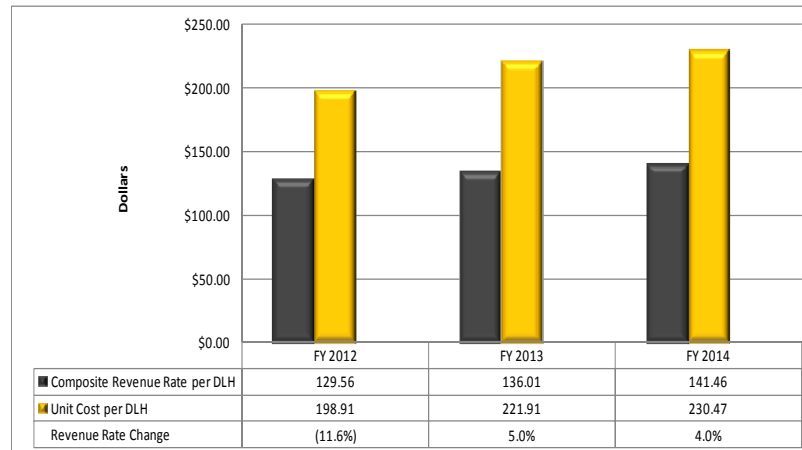
Total direct labor hours represent the number of hours required to complete the Industrial Operations direct mission workload. FY 2013 and FY 2014 DLHs decrease slightly as new orders are expected to decrease, but production remains high to complete work carried over from prior fiscal years. IO activities remain prepared to

increase overtime and contractor DLHs in the event workload estimates increase.

## Direct Labor Hour Rate

The composite revenue rate is an aggregate hourly rate established in the budget cycle and used to price rate-stabilized workload. It is comprised of direct labor and material costs, overhead costs (mission indirect and non-mission

Chart IO 3 - Direct Labor Hour Rate



indirect costs) and accumulated operating result adjustments that are designed to return gains or recover losses. In contrast to rate-stabilized workload, cost reimbursable workload represents workload that is prototype in nature or has very little repair history. It is not included in the stabilized rate calculation until sufficient repair information has been established. The composite revenue rate calculation is complex and influenced by several factors: 1) commodity mix of the workload planned (labor intensive, material intensive or both); 2) the amount of gains to be

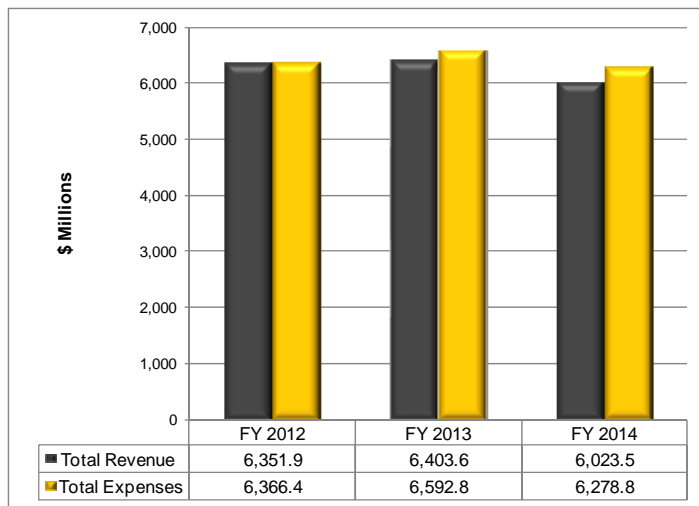


returned or losses to be recovered over the budget years; 3) the amount of stabilized direct labor hours available to return gains or recover losses; and 4) the number of total direct labor hours available to distribute overhead cost (stabilized and non-stabilized workload). A change to the composite revenue rate directly affects the total revenue and new order values for the budget year. The FY 2014 composite revenue rate is \$141.46 and is set to return \$202.3 million of prior year accumulated operating result (AOR). Unlike the composite revenue rate, which is adjusted for AOR and applied to only new rate stabilized workload, the unit cost per direct labor hour represents total costs of work performed on both prior year and current year orders. The unit cost does not include adjustments for AOR. The return of operating gains to customers causes the revenue rate to be lower than unit cost.

## Revenue and Expenses

The Industrial Operations revenue amount represents earnings from work performed on customer equipment. Total expenses cover full costs, including material, labor, storage, and other direct or indirect costs associated with the products or services being provided. Revenue and expense projections increase in FY 2013 as activities increase production to reduce carryover. FY 2013 and FY 2014 revenue reflects the return of operational gains back to customers. Revenue and expenses are displayed in more detail on Exhibit Fund 14, *Revenue and Costs*.

Chart IO 4 - Revenue and Expenses



## Operating Result

The Net Operating Result (NOR) represents the difference between revenue and expenses within a fiscal year. The AOR represents the summation of all operating gains or losses since activity group inception along with any prior period adjustments. AOR at the end of FY 2012 was \$681.5 million. Industrial Operations set rates to return \$135.2 million and \$202.3 million of this AOR in FY 2013 and FY 2014, respectively. The Industrial Operations business received approval from DOD Comptroller to defer the return of \$344.0 million of AOR pending resolution of potential prior year accounting issues related to inventory



valuation. The Recoverable Net Operating Result, Deferred Accumulated Operating Result (AOR), and AOR are displayed in the table below and on Exhibit Fund 14, *Revenue and Costs*.

Table IO 1 - Operating Results

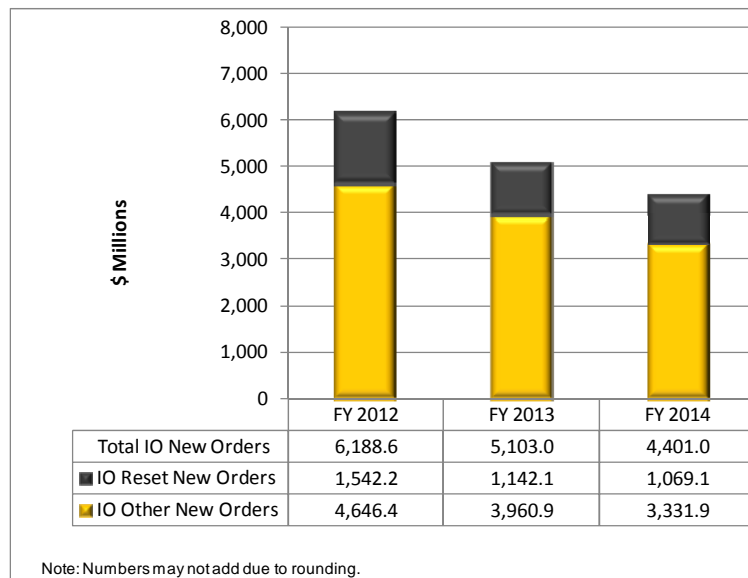
(\$ Millions)	FY 2012	FY 2013	FY 2014
Recoverable Net Operating Result	42.0	(135.2)	(202.3)
Deferred AOR	0.0	0.0	(344.0)
Accumulated Operating Result	681.5	546.2	0.0

## New Orders

Industrial Operations activities develop workload projections based on close coordination with customers and their delivery schedule requirements. This budget includes workload assumptions associated with base program requirements and anticipated Reset workload included in the Overseas Contingency Operations request. The Reset program ensures Army equipment is restored to a

level of combat capability commensurate with a unit's future mission. The projected workload in FY 2013 and FY 2014 decreases slightly, in line with customer projections and budgeted depot maintenance requirements. Exhibit Fund 11, *Source of New Orders and Revenue*, displays total new order estimates by fund category.

Chart IO 5 - New Orders



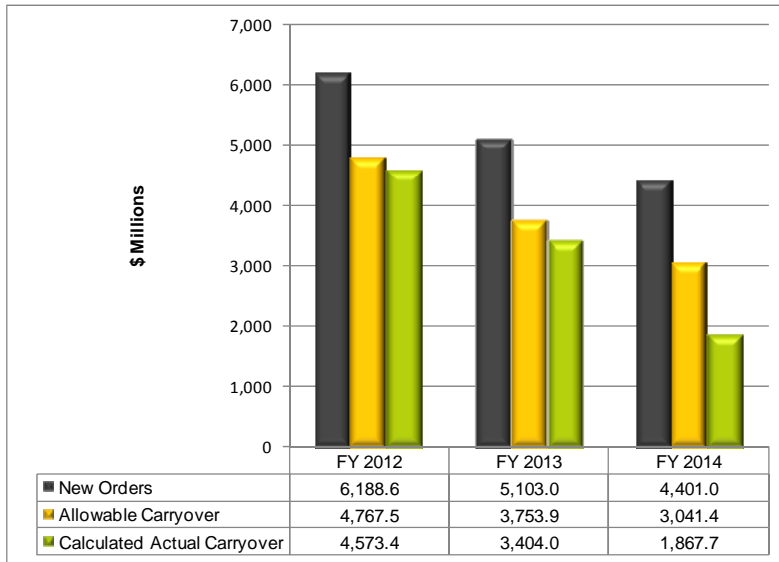
## Carryover

Carryover, or unfilled orders, represents the dollar value of work that has been ordered and funded by customers but not completed by the industrial activities at the end of each fiscal year. Carryover leads to better planning, better decision making, and cost efficiencies. It provides lead time to assemble necessary workforce skill sets, to establish supply chains and to coordinate workload routing. Carryover also prevents production line stoppages and ensures the activities have funded work to provide a smooth transition between fiscal years. Army expects to be under the carryover ceiling in each fiscal year, reducing carryover by \$1,300.6 million in



FY 2013 and \$1,622.4 million in FY 2014, as displayed on Exhibit Fund 11, *Source of New Orders and Revenue*, and Exhibit Fund 11a, *Carryover Reconciliation*.

Chart IO 6 - New Orders and Carryover



Note: Carryover amounts displayed account for carryover exclusions

## Performance Measurements

Performance measurements and goals for the Industrial Operations activity group include Recoverable Net Operating Result (NOR) and Productive Yield. FY 2012 actual results and projections for FY 2013 and FY 2014 are shown in the table below.

Table IO 2 - Performance Measurements

Measurements/Goals	FY 2012	FY 2013	FY 2014
Recoverable Net Operating Result	42.0	(135.2)	(202.3)
Productive Yield (Goal 1,615)	1,502	1,617	1,616

The customer rates in the budget return prior year gains, as reflected by the negative NOR, and also preserves \$344.0 million of Accumulated Operating Result (AOR) for resolution of potential prior year accounting issues.

Productive Yield represents the average number of regular direct labor hours for each full time equivalent position involved in production and is an indicator of whether direct labor employees can support



Patriot radar on display at Letterkenny Army Depot.



projected workload. The goal is 1,615 productive labor hours per employee, however, this does not reflect the additional training requirements implemented since the start of Operation Iraqi Freedom and Operation Enduring Freedom. The productive yield for FY 2012 was lower than planned due largely to training and the continued learning curve experienced by the deployment of the Logistics Modernization Program at the final ten Industrial Operations activities. Projections for FY 2013 and FY 2014 meet the productive yield goal.

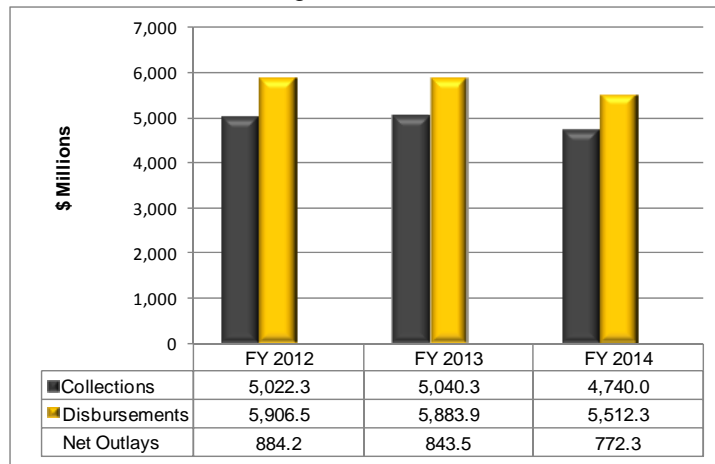
## Appropriations

No direct appropriations are requested in the budget.

## Collections, Disbursements, and Outlays

Collections are calculated based on projected revenue and changes in accounts receivable. Disbursements are projected based on monthly operating expenses, changes in accounts payable, and Capital Investment Program obligations. Net outlays reflect the return of accumulated operating result to customers

Chart IO 7 - Cash Management



(\$202.3 million in FY 2014) and the treatment of internal work performed under the Logistics Modernization Program (LMP). Under the internal work performed process, there are no collections or disbursements between the Industrial Operations and Supply Management activity groups as LMP treats both entities as one company. This business process happens to result in an increased net outlay for the Industrial Operations activity, which is balanced by a decreased net outlay for the Supply Management activity.

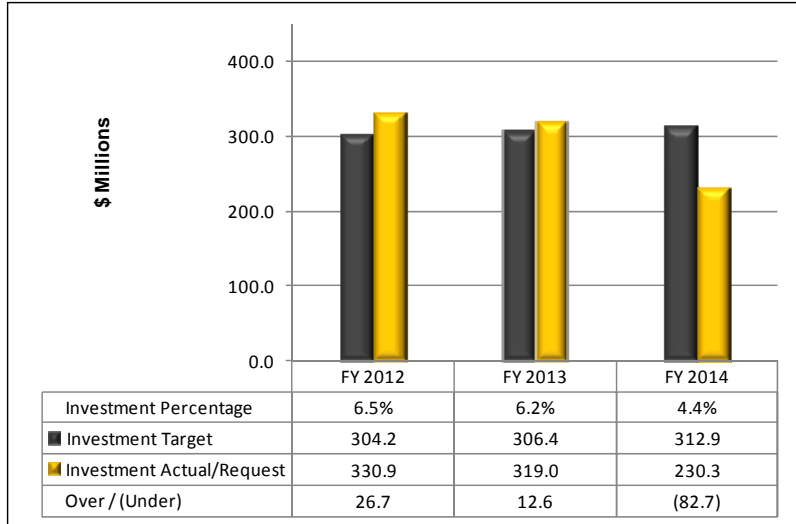




# Minimum Capital Investment for Certain Depots and Arsenals

The National Defense Authorization Acts for FY 2007, FY 2009 and FY 2012 require the five Army maintenance depots (Anniston, Red River, Letterkenny, Tobyhanna, and Corpus Christi), the three arsenals (Rock Island, Pine Bluff, and Watervliet) and Tooele Army Depot to invest the equivalent of at least six percent of funded workload in capital programs.

Chart IO 8 – Minimum Capital Investment



The chart displays the total investment target and total investment amount planned. Army investment met the six percent minimum requirement in FY 2012 and intends to meet the requirement in FY 2013. The Army is in the process of identifying additional investments for FY 2014 and is exploring the feasibility of pulling some of the FY 2015 requirements forward to FY 2014. With the expected decrease in overseas operations, investments tied to record revenue producing years is becoming increasingly challenging and may no longer be supportable or prudent as the force draws down. Exhibit Fund 6, *Minimum Capital Investment for Certain Depots and Arsenals* provides investment details by category for each activity.



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Revenue and Costs  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<b>Revenue</b>			
Gross Sales:	6,282.5	6,403.6	6,023.5
Operations	6,143.6	6,230.3	5,859.7
Surcharges			
Depreciation excluding Major Construction	138.9	173.2	163.7
Other Income (Unfunded Depreciation)	32.7	0.0	0.0
Other Income (Misc Gains/losses)	36.7	0.0	0.0
<b>Total Income:</b>	<b>6,351.9</b>	<b>6,403.6</b>	<b>6,023.5</b>
<b>Costs</b>			
Salaries and Wages:	2,109.3	2,039.5	1,884.2
Military Personnel Compensation & Benefits	3.1	3.4	3.4
Civilian Personnel Compensation & Benefits	2,106.2	2,036.2	1,880.8
Travel & Transportation of Personnel	47.0	40.4	38.2
Materials & Supplies (For Internal Operations)	2,380.8	2,915.0	2,941.4
Equipment	66.6	84.5	74.1
Other Purchases from Revolving Funds	400.0	123.9	112.5
Transportation of Things	13.5	11.6	10.3
Depreciation - Capital	171.6	173.2	163.7
Printing and Reproduction	1.9	2.9	3.0
Advisory and Assistance Services	165.0	152.0	116.2
Rent, Communication, Utilities, & Misc. Charges	92.9	102.0	94.5
Other Purchased Services	917.8	947.8	840.6
<b>Total Costs:</b>	<b>6,366.4</b>	<b>6,592.8</b>	<b>6,278.8</b>
<b>Operating Result</b>	<b>(14.5)</b>	<b>(189.3)</b>	<b>(255.4)</b>
Other Changes Affecting NOR:	56.6	54.0	53.1
Other Inventory Adjustments			
*Non-Recoverable Expenses	56.6	54.0	53.1
<b>Recoverable Net Operating Result</b>	<b>42.0</b>	<b>(135.2)</b>	<b>(202.3)</b>
Other Changes Affecting AOR			
a. AOR Beginning of Year (Unadjusted)	639.4	681.5	546.2
b. +/- Prior Year Adjustments			
c. Equals AOR BOY (Adjusted)	639.4	681.5	546.2
d. +/- Net Operating Result	42.0	(135.2)	(202.3)
e. Deferred AOR			(344.0)
f. Equals Recoverable AOR EOP	681.5	546.2	0.0

\* Logistics Modernization Program Alternate Dispute Resolution Settlement \$30.4M in FY 2012; depreciation on donated and transferred plant, property and equipment \$22.0M in FY 2012, \$54.0M in FY 2013, and \$53.1M in FY 2014.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Source of New Orders and Revenue  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<b>1. New Orders</b>			
a. Orders from DoD Components:			
Department of Army			
Operations & Maintenance, Army	2,368.6	2,263.2	1,978.0
Operations & Maintenance, ARNG	182.0	152.7	69.1
Operations & Maintenance, AR	145.2	134.5	4.3
Subtotal, O&M:	2,695.8	2,550.4	2,051.4
Aircraft Procurement	235.8	176.8	163.0
Missile Procurement	42.8	0.7	0.7
Weapons & Tracked Combat Vehicles	109.0	122.2	125.6
Procurement of Ammunition	145.0	130.5	90.3
Other Procurement	685.0	184.5	148.3
Subtotal, Procurement:	1,217.7	614.9	528.0
RDTE	33.1	14.1	5.9
BRAC	0.1	0.3	0.3
Family Housing	3.0	2.4	2.4
Military Construction	8.0	0.0	0.0
Chem Agents & Munitions Dest, Army	3.1	2.6	3.0
Other	3.2	0.1	0.1
Subtotal, Other Army:	50.6	19.4	11.6
Subtotal, Department of Army:	3,964.1	3,184.7	2,591.0
Department of Air Force O&M	110.8	72.0	84.4
Department of Air Force Investment	78.7	59.3	43.2
Department of Navy O&M	18.6	24.5	19.3
Department of Navy Investment	30.6	19.4	22.3
US Marines O&M	187.7	101.4	79.7
US Marines Investment	11.3	22.3	19.4
Other Department of Defense	63.3	44.5	32.2
Subtotal, Other DoD Services:	501.0	343.4	300.5

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Source of New Orders and Revenue  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
b. DWCF:			
Industrial Operations, Army	27.5	21.3	21.5
Supply Management, Army	1,321.2	1,210.4	1,209.3
Supply Management, Air Force	40.2	48.2	11.5
Supply Management, Navy	50.9	66.0	53.0
Supply Management, Marine Corps	3.6	0.0	0.0
DECA	0.1	0.1	0.1
DFAS	0.3	0.3	0.4
DISA	1.3	1.8	1.9
DLA	24.9	52.3	24.7
TRANSCOM	0.1	0.0	0.0
Other	1.2	10.2	10.1
Subtotal, DWCF:	1,471.4	1,410.5	1,332.4
c. Total DoD			
	5,936.4	4,938.7	4,223.9
d. Other Orders:			
Other Federal Agencies	14.9	0.7	0.8
Foreign Military Sales	157.7	39.6	106.7
Nonappropriated	8.3	29.6	6.0
Non-Federal Agencies	71.1	94.4	63.5
Subtotal, Other Orders:	252.1	164.4	177.1
<b>Total New Orders:</b>	6,188.6	5,103.0	4,401.0
<b>2. Carry-in Orders</b>	5,054.2	4,960.3	3,659.7
<b>3. Total Gross Orders</b>	11,242.7	10,063.3	8,060.7
<b>4. Revenue (-)</b>	6,282.5	6,403.6	6,023.5
<b>5. End of Year Work-inProcess (-)</b>			
<b>6. FMS, BRAC, Other Federal, and Non-Federal orders</b>	253.1	202.0	135.9
Crash Damage	132.3	53.8	33.7
4th Qtr Other Service Wkld	1.6	0.0	0.0
<b>7. Funded Carry-over</b>	4,573.4	3,404.0	1,867.7
<b>8. Allowable Carry-over</b>	4,767.5	3,753.9	3,041.4
<b>9. Over/(Under) Allowable Carry-over</b>	(194.0)	(349.9)	(1,173.7)

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Carryover Reconciliation  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
1. Net Carry-In	5,054.2	4,960.3	3,659.7
2. Revenue	6,282.5	6,403.6	6,023.5
3. New Orders	6,188.6	5,103.0	4,401.0
4. Exclusions:			
FMS	157.7	39.6	106.7
BRAC	0.1	0.3	0.3
Other Federal Depts & Agencies	14.9	0.7	0.8
Non-Federal and Others	79.5	124.0	69.6
Crash Damage	81.3	46.5	36.6
4th Qtr Other Service Wkld	1.6	0.0	0.0
5. Orders for Carryover Calculation	5,853.4	4,891.9	4,187.1
2nd Yr Orders for Carryover Calculation	2,050.2	1,338.3	715.9
6. Weighted Composite Outlay Rate	33.1%	36.2%	36.0%
2nd Yr Weighted Composite Outlay Rate	58.6%	52.7%	49.7%
7. Carryover Rate	66.9%	63.8%	64.0%
2nd Yr Carryover Rate	41.4%	47.3%	50.3%
8. Allowable Carryover (1st Year Outlay Rate	3,917.9	3,120.8	2,681.4
Prior Year 2nd Yr Outlay Rate	849.5	633.1	360.0
Total Allowable Carryover	4,767.5	3,753.9	3,041.4
9. Balance of Customer Orders at Year End	4,960.3	3,659.7	2,037.3
10. Exclusions:			
FMS	189.6	124.2	107.7
BRAC	1.3	1.1	1.1
Other Federal Depts & Agencies	21.2	5.1	1.9
Non-Federal and Others	41.0	71.5	25.2
Crash Damage	132.3	53.8	33.7
4th Qtr Other Service Wkld	1.6	0.0	0.0
11. Calculated Actual Carryover	4,573.4	3,404.0	1,867.7

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Changes in the Cost of Operations  
(\$ in Millions)**

		<b>Costs</b>
<b>FY 2012 Estimated Actual</b>		<b>6,366.4</b>
<b>FY 2013 Estimate in President's Budget</b>		<b>6,493.7</b>
<b>Pricing Adjustments</b>		<b>15.1</b>
FY 2013 Pay Raise	7.8	
-Civilian Personnel	7.8	
-Military Personnel	0.0	
Materials and Supplies	1.7	
Other	5.6	
<b>Productivity Initiatives and Other Efficiencies</b>		<b>0.0</b>
Lean Program	20.1	
Value Engineering Program	(1.3)	
Reinvestment of Lean savings (-)	(18.7)	
<b>Program Changes</b>		<b>84.0</b>
Labor	104.5	
Travel	(12.0)	
Material	(228.6)	
Equipment	6.9	
Transportation	(5.0)	
Depreciation	42.8	
Advisory and Assistance Services	35.8	
Other Purchased Services	134.3	
Other	5.3	
<b>FY 2013 Current Estimate</b>		<b>6,592.8</b>
<b>Pricing Adjustments</b>		<b>14.0</b>
FY 2014 Pay Raise	17.6	
-Civilian Personnel	17.5	
-Military Personnel	0.1	
Materials and Supplies	(32.3)	
Other	28.7	
<b>Productivity Initiatives and Other Efficiencies</b>		<b>0.0</b>
Lean Program	10.4	
Value Engineering Program	4.9	
Reinvestment of Lean savings (-)	(15.3)	
<b>Program Changes</b>		<b>(328.0)</b>
Labor	(172.8)	
Travel	(3.0)	
Material	58.7	
Equipment	(11.8)	
Transportation	(1.5)	
Depreciation	(9.5)	
Advisory and Assistance Services	(38.7)	
Other Purchased Services	(125.1)	
Other	(24.3)	
<b>FY 2014 Budget Estimate</b>		<b>6,278.8</b>

**EXHIBIT FUND 2  
CHANGES IN THE COST OF OPERATIONS**

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Material Inventory Data  
(\$ in Millions)**

FY 2012				
	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	1,382.0	0.0	1,382.0	0.0
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,343.3	0.0	2,343.3	0.0
B. Purchase of long lead items in advance of customer orders (+)	32.4	0.0	32.4	0.0
C. Other Purchases (list) (+)	68.8	0.0	68.8	0.0
D. Total Purchases	2,444.5	0.0	2,444.5	0.0
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders)	2,380.8	0.0	2,380.8	0.0
B. Disposals, theft, losses due to damages (-)	31.2	0.0	31.2	0.0
C. Other reductions (list) (-)	0.0	0.0	0.0	0.0
D. Total inventory adjustments	2,412.0	0.0	2,412.0	0.0
Material Inventory EOP	1,414.5	0.0	1,414.5	0.0
FY 2013				
	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	1,414.5	0.0	1,414.5	0.0
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,059.6	0.0	2,059.6	0.0
B. Purchase of long lead items in advance of customer orders (+)	589.7	0.0	589.7	0.0
C. Other Purchases (list) (+)	76.2	0.0	76.2	0.0
D. Total Purchases	2,725.5	0.0	2,725.5	0.0
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders)	2,915.0	0.0	2,915.0	0.0
B. Disposals, theft, losses due to damages (-)	40.0	0.0	40.0	0.0
C. Other reductions (list) (-)	0.2	0.0	0.2	0.0
D. Total inventory adjustments	2,955.1	0.0	2,955.1	0.0
Material Inventory EOP	1,184.9	0.0	1,184.9	0.0
FY 2014				
	<u>Total</u>	<u>Mobilization</u>	<u>Operating</u>	<u>Other</u>
Material Inventory BOP	1,184.9	0.0	1,184.9	0.0
<u>Purchases</u>				
A. Purchases to Support Customer Orders (+)	2,569.5	0.0	2,569.5	0.0
B. Purchase of long lead items in advance of customer orders (+)	27.4	0.0	27.4	0.0
C. Other Purchases (list) (+)	71.7	0.0	71.7	0.0
D. Total Purchases	2,668.6	0.0	2,668.6	0.0
<u>Material Inventory Adjustments</u>				
A. Material Used in Maintenance (and billed/charged to customer orders)	2,941.4	0.0	2,941.4	0.0
B. Disposals, theft, losses due to damages (-)	38.5	0.0	38.5	0.0
C. Other reductions (list) (-)	0.2	0.0	0.2	0.0
D. Total inventory adjustments	2,980.1	0.0	2,980.1	0.0
Material Inventory EOP	873.4	0.0	873.4	0.0

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenal  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<u>Anniston Army Depot</u>			
Average Revenue for Investment	802.1	732.4	733.2
Capital Investment Program	30.1	25.2	13.0
Facilities Restoration and Modernization	4.3	1.6	1.6
Equipment Modernization	8.3	7.2	7.0
Productivity Enhancements	0.0	0.0	0.0
MILCON	0.0	1.2	0.0
Actual/ Budgeted Investment	42.7	35.2	21.5
Required Investment	48.1	43.9	44.0
Investment Over / (Under) Required Amount	(5.5)	(8.8)	(22.5)
<u>Corpus Christi Army Depot</u>			
Average Revenue for Investment	1,329.7	1,477.9	1,520.0
Capital Investment Program	50.4	55.7	30.5
Facilities Restoration and Modernization	2.6	0.8	0.8
Equipment Modernization	14.3	29.8	30.3
Productivity Enhancements	0.0	0.0	0.0
MILCON	0.0	37.2	0.0
Actual/ Budgeted Investment	67.3	123.5	61.6
Required Investment	79.8	88.7	91.2
Investment Over / (Under) Required Amount	(12.4)	34.8	(29.6)
<u>Letterkenny Army Depot</u>			
Average Revenue for Investment	637.5	655.7	673.9
Capital Investment Program	10.9	22.7	12.0
Facilities Restoration and Modernization	5.3	6.8	6.5
Equipment Modernization	5.2	0.0	0.0
Productivity Enhancements	0.0	0.0	0.0
MILCON	1.2	0.0	0.0
Actual/ Budgeted Investment	22.5	29.4	18.5
Required Investment	38.2	39.3	40.4
Investment Over / (Under) Required Amount	(15.7)	(9.9)	(22.0)
<u>Red River Army Depot</u>			
Average Revenue for Investment	819.0	798.0	877.4
Capital Investment Program	21.4	22.2	46.0
Facilities Restoration and Modernization	6.3	5.1	3.7
Equipment Modernization	0.0	7.7	4.9
Productivity Enhancements	0.0	0.4	0.4
MILCON	44.0	0.0	0.0
Actual/ Budgeted Investment	71.7	35.4	55.0
Required Investment	49.1	47.9	52.6
Investment Over / (Under) Required Amount	22.5	(12.5)	2.3



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenals  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<u>Tobyhanna Army Depot</u>			
Average Revenue for Investment	822.4	845.1	869.4
Capital Investment Program	22.7	25.3	15.7
Facilities Restoration and Modernization	13.9	2.0	2.2
Equipment Modernization	13.0	9.8	9.8
Productivity Enhancements	0.4	0.4	0.4
MILCON	0.0	4.0	0.0
Actual/ Budgeted Investment	50.1	41.4	28.1
Required Investment	49.3	50.7	52.2
Investment Over / (Under) Required Amount	0.7	(9.3)	(24.1)
<u>Pine Bluff Arsenal</u>			
Average Revenue for Investment	156.7	155.2	148.4
Capital Investment Program	5.7	5.4	3.5
Facilities Restoration and Modernization	5.6	0.3	0.3
Equipment Modernization	1.9	1.8	1.8
Productivity Enhancements	0.1	0.0	0.0
MILCON	0.0	0.0	0.0
Actual/ Budgeted Investment	13.3	7.4	5.5
Required Investment	9.4	9.3	8.9
Investment Over / (Under) Required Amount	3.9	(1.9)	(3.4)
<u>Rock Island Arsenal</u>			
Average Revenue for Investment	333.3	289.9	246.5
Capital Investment Program	13.5	15.4	6.5
Facilities Restoration and Modernization	6.6	6.4	3.2
Equipment Modernization	7.4	4.3	3.5
Productivity Enhancements	0.0	0.0	0.0
MILCON	0.0	2.1	0.0
Actual/ Budgeted Investment	27.4	28.3	13.2
Required Investment	20.0	17.4	14.8
Investment Over / (Under) Required Amount	7.4	10.9	(1.6)
<u>Watervliet Arsenal</u>			
Average Revenue for Investment	111.0	96.0	93.2
Capital Investment Program	17.1	9.4	7.6
Facilities Restoration and Modernization	5.9	4.4	4.4
Equipment Modernization	0.0	0.0	0.0
Productivity Enhancements	0.0	0.0	0.0
MILCON	0.0	0.0	0.0
Actual/ Budgeted Investment	23.0	13.8	12.0
Required Investment	6.7	5.8	5.6
Investment Over / (Under) Required Amount	16.3	8.1	6.4

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Minimum Capital Investment for Certain Depots and Arsenals  
(\$ in Millions)**

	FY 2012	FY 2013	FY 2014
<u>Tooele Army Depot</u>			
Average Revenue for Investment	58.5	57.2	53.7
Capital Investment Program	2.5	3.8	1.6
Facilities Restoration and Modernization	1.7	0.2	0.2
Equipment Modernization	0.1	0.7	0.7
Productivity Enhancements	0.0	0.0	0.0
MILCON	8.7	0.0	12.5
Actual/ Budgeted Investment	12.9	4.6	14.9
Required Investment	3.5	3.4	3.2
Investment Over / (Under) Required Amount	9.4	1.2	11.6
 <b><u>TOTAL ARMY</u></b>			
Average Revenue for Investment	5,070.1	5,107.4	5,215.7
Capital Investment Program	174.2	185.0	136.4
Facilities Restoration and Modernization	52.2	27.5	22.8
Equipment Modernization	50.2	61.3	58.0
Productivity Enhancements	0.5	0.7	0.7
MILCON	53.8	44.5	12.5
Actual/ Budgeted Investment	330.9	319.0	230.3
Required Investment	304.2	306.4	312.9
Investment Over / (Under) Required Amount	26.7	12.6	(82.7)
Investment percentage	6.5%	6.2%	4.4%

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Fuel Data**

FY 2012			
FUEL PROCUREMENT			
PRODUCT	BARRELS (millions)	COST PER BARREL (\$)	EXTENDED PRICE (\$ millions)
Jet Fuel Widecut		\$204.96	
Jet Fuel Com'l Grade		\$159.60	
JP-5	0.007	\$162.54	1.1
AVGAS		\$184.38	
GASOHOL		\$166.74	
DIESEL	0.049	\$145.32	7.1
MOGAS Unleaded	0.019	\$157.92	3.1
MOGAS Leaded		\$161.70	
JP-8	0.021	\$161.70	3.4
Distillate Heating	0.000	\$161.28	0.0
Residual Heating		\$80.22	
Burner Fuel	0.005	\$101.64	0.6
Propane (MLP)	0.004	\$50.40	0.2
Diesel Heating Fuel	0.003	\$156.66	0.4
Natural Gas (CNG)	0.017	\$6.01	0.1
Other (list)	0.000	\$98.28	0.0
<b>TOTAL</b>	<b>0.127</b>	<b>\$2,159.35</b>	<b>16.1</b>

FY 2013			
FUEL PROCUREMENT			
PRODUCT	BARRELS (millions)	COST PER BARREL (\$)	EXTENDED PRICE (\$ millions)
Jet Fuel Widecut		\$191.94	
Jet Fuel Com'l Grade		\$155.82	
JP-5	0.016	\$157.50	2.5
AVGAS		\$178.92	
GASOHOL		\$161.70	
DIESEL	0.055	\$140.70	7.8
MOGAS Unleaded	0.026	\$152.88	4.0
MOGAS Leaded		\$156.66	
JP-8	0.024	\$156.66	3.7
Distillate Heating	0.010	\$156.24	1.5
Residual Heating		\$78.54	
Burner Fuel	0.014	\$99.12	1.4
Propane (MLP)	0.006	\$41.16	0.2
Diesel Heating Fuel	0.009	\$152.88	1.4
Natural Gas (CNG)	0.039	\$5.96	0.2
Other (list)	0.000	\$98.28	0.0
<b>TOTAL</b>	<b>0.200</b>	<b>\$2,084.96</b>	<b>22.9</b>

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Fuel Data**

FY 2014			
FUEL PROCUREMENT			
PRODUCT	BARRELS (millions)	COST PER BARREL (\$)	EXTENDED PRICE (\$ millions)
Jet Fuel Widecut		\$186.48	
Jet Fuel Com'l Grade		\$151.20	
JP-5	0.010	\$152.88	1.5
AVGAS		\$173.46	
GASOHOL		\$157.08	
DIESEL	0.090	\$136.50	12.3
MOGAS Unleaded	0.018	\$148.26	2.6
MOGAS Leaded		\$157.08	
JP-8	0.014	\$152.04	2.1
Distillate Heating	0.007	\$151.62	1.1
Residual Heating		\$76.02	
Burner Fuel	0.014	\$96.18	1.4
Propane (MLP)	0.006	\$43.68	0.3
Diesel Heating Fuel	0.003	\$148.26	0.4
Natural Gas (CNG)	0.052	\$5.88	0.3
Other (list)	0.000	\$95.34	0.0
<b>TOTAL</b>	<b>0.213</b>	<b>\$2,031.96</b>	<b>21.9</b>

# Capital Budget

## Introduction

The primary goal of the Capital Investment Program (CIP) within the AWCF is to establish a capability for reinvestment in the infrastructure of business areas to improve product and service quality and timeliness, reduce costs, and foster state-of-the-art business operations. The CIP provides the framework for planning, coordinating, and controlling AWCF resources and expenditures to obtain capital assets. Included in the capital budget are the following types of assets: automated data processing equipment (ADPE); non-ADPE equipment; automated data processing software, whether internally or externally developed; and minor construction. The capital budget justifies the purchase of assets with a unit cost that is greater than or equal to \$250,000 and have a useful life of two or more years.

Headquarters, Army Materiel Command conducts a thorough vetting process to ensure capital projects deliver a positive return on investment and comply with strategic plans for each industrial facility. Capital projects within the Industrial Operations enterprise focuses primarily on replacing and upgrading equipment, while the Supply Management enterprise focus solely on software development in support of the Logistics Modernization Program.

Capital budget obligation authority is displayed on the following exhibits: Fund 9a, *Capital Investment Summary*; Fund 9b, *Capital Purchase Justification*; and Fund 9c, *Capital Budget Execution*.

The table below shows the Supply Management capital budget and associated cash outlays.

Table CIP 1 – Supply Management Capital Budget

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Software (LMP)	32.6	59.2	71.8
<i>Capital Cash Outlays</i>	<i>34.9</i>	<i>39.1</i>	<i>61.5</i>



The table below shows categories and respective values of the Industrial Operations capital budget and the projected capital cash outlays.

Table CIP 2 – Industrial Operations Capital Budget

<b>(\$ Millions)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
Equipment	124.2	83.6	75.0
ADPE & Telecommunications	1.3	5.0	0.0
Software	50.8	79.7	75.5
Minor Construction	25.0	31.7	27.6
Total	201.3	200.0	178.1
<i>Capital Cash Outlays</i>	173.6	192.9	187.1



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Capital Investment Summary  
(\$ Millions)**

Line No.	Description	FY 2012		FY 2013		FY 2014	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
00-02	<b>SOFTWARE</b>						
	<i>Logistics Modernization Program (LMP)</i>	1	32.644	1	59.218	1	71.822
	<b>SOFTWARE TOTAL</b>	1	32.644	1	59.218	1	71.822
	<b>ACTIVITY TOTAL</b>	1	32.644	1	59.218	1	71.822
	<i>Total Capital Outlays</i>		34.881		39.075		61.466
	<i>Total Depreciation Expense</i>		84.186		86.900		86.900

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Capital Purchase Justification  
(\$ Millions)**

SOFTWARE										
Line No	Item Description	FY 2012			FY 2013			FY 2014		
00-02	Logistics Modernization Program (LMP)	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Element of Cost	Logistics Modernization Program (LMP)	1	32.644	32.644	1	59.218	59.218	1	71.822	71.822
<b>Total</b>		1		32.644	1		59.218	1	71.822	71.822

*Narrative Justification*

Logistics Modernization Program (LMP) leverages commercial market driven business process improvements. Although LMP is functional at each of AMC's Life Cycle Management Commands, it continues to require enhancements and upgrades to maintain superior functionality and obtain auditable financial statements. Additionally, it is not yet integrated into overarching Army transformation efforts. Work continues to achieve these goals. The budget includes the following LMP enhancements under the LMP Increment II:

- Army Prepositioned Stock enhancements will incorporate the war reserve secondary items requirements determination process in LMP.
- National Maintenance Program (NMP) enhancements will improve the work loading, management processes, and financial integrities for depot-level work at NMP sites managed in LMP but executed in the Global Combat Support System - Army.
- Acquisition of LMP software licenses in support of the Army plan to obtain ownership from the current service provider in FY 2013.
- Incorporation of AWCF budgetary processes into the LMP system.
- Integration of Non-Army Managed Items (NAMI) capability into LMP, enabling redistribution of Army assets and extending supply chain management of consumable items beyond the wholesale level in order to provide products and services to the point of consumption. NAMI enhancements will support the search matrix for NAMI, process Authorized Stock List replenishment requisitions, lateral redistribution, and NAMI return and disposals.

ECONOMIC INDICATORS:  
Investment Cost (FY12-FY18)

\$232,865.000 Present Value of Benefits:

\$1,287,000.000 Benefit to Investment Ratio:

5.527 Payback Period:



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Supply Management**

**Capital Purchase Execution  
(\$ Millions)**

<b>FY12</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/Deficiency</b>	<b>Explanation</b>
	<b>SOFTWARE</b>						
FY12	<i>Logistics Modernization Program</i>	32.644	0.000	32.644	32.644	0.000	
<b>FY12 TOTAL</b>		<b>32.644</b>	<b>0.000</b>	<b>32.644</b>	<b>32.644</b>	<b>0.000</b>	

<b>FY13</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/Deficiency</b>	<b>Explanation</b>
	<b>SOFTWARE</b>						
FY13	<i>Logistics Modernization Program</i>	59.218	0.000	59.218	59.218	0.000	
<b>FY13 TOTAL</b>		<b>59.218</b>	<b>0.000</b>	<b>59.218</b>	<b>59.218</b>	<b>0.000</b>	

<b>FY14</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/Deficiency</b>	<b>Explanation</b>
	<b>SOFTWARE</b>						
FY14	<i>Logistics Modernization Program</i>	71.822	0.000	71.822	71.822	0.000	
<b>FY14 TOTAL</b>		<b>71.822</b>	<b>0.000</b>	<b>71.822</b>	<b>71.822</b>	<b>0.000</b>	

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Investment Summary  
(\$ in Millions)**

Line No.	Description	FY 2012		FY 2013		FY 2014	
		Quantity	Total Cost	Quantity	Total Cost	Quantity	Total Cost
05-13	<b>EQUIPMENT CAPABILITIES</b>						
	- Replacement	56	69.029	32	40.953	20	28.709
	- Productivity	42	54.339	27	40.931	5	46.241
	- New Mission	0	0.000	0	0.000	0	0.000
	- Environmental	2	0.849	2	1.725	0	0.000
	<b>EQUIPMENT TOTAL</b>	100	124.217	61	83.609	25	74.950
	<b>ADPE &amp; Telecommunications Equipment Capabilities</b>						
04-26	Miscellaneous ADPE	1	1.181	4	2.008	0	0.000
06-46	Automatic Identification Technology (AIT)	1	0.107	1	3.000	0	0.000
	<b>ADPE &amp; TELECOMMUNICATIONS EQUIPMENT TOTAL</b>	2	1.288	5	5.008	0	0.000
	<b>SOFTWARE DEVELOPMENT</b>						
99-08	Army Workload and Performance System (AWPS)	1	0.431	0	0.000	0	0.000
10-03	Defense Property Accounting System - Enhanced (DPAS-E)	1	1.392	0	0.000	0	0.000
00-02	Logistics Modernization Program (LMP)	1	48.960	1	79.650	1	75.523
	<b>SOFTWARE TOTAL</b>	3	50.783	1	79.650	1	75.523
	<b>MINOR CONSTRUCTION CAPABILITIES</b>						
05-26	Various Minor Construction \$100K <\$750K	75	25.021	41	31.703	37	27.594
	<b>MINOR CONSTRUCTION TOTAL</b>	75	25.021	41	31.703	37	27.594
	<b>ACTIVITY GROUP TOTAL *</b>	180	201.309	108	199.970	63	178.067
	Total Capital Outlays		173.613		192.922		187.096
	Total Depreciation Expense		110.730		119.180		110.620

\* FY 2012 total of \$201.309M includes the following reprogrammings: FY 2010 Non-ADP Equipment (\$6.772); FY 2011 Non-ADP Equipment (\$3.509M)

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Purchase Justification  
(\$ in Millions)**

Line No	Item Description	Equipment		Total Cost		
		Activity Identification		FY 2012	FY 2013	FY 2014
05-13	Various Capital Equipment	Industrial Operations				
	<i>Replacement</i>			69.029	40.953	28.709
	<i>Productivity</i>			54.339	40.931	46.241
	<i>New Mission</i>			0.000	0.000	0.000
	<i>Environmental</i>			0.849	1.725	0.000
	<b>Total</b>			<b>124.217</b>	<b>83.609</b>	<b>74.950</b>

*Narrative Justification*

This exhibit represents equipment purchases costing more than \$250K, which will improve the installations' efficiency through replacement, modification or addition of production and maintenance capability and compliance with new mission requirements. Equipment supports organic maintenance, overhaul, rebuild, reclamation, conversion, renovation, modification and repair programs.

Acquisition of this equipment improves productivity; increases capacity that cannot be met with current equipment; replaces unsafe, inoperable or unusable assets; and includes requirements for environmental hazardous waste reduction or regulatory agency mandated requirements. This new equipment increases reliability and productivity, thus enabling the installation to be more efficient.

If not acquired, equipment support capability would not provide for mission needs and would impact operations in the following ways: reduce mission capability, cause failure to meet present and future workload requirements, increase man-hour expenditures, cause inability to meet production schedules, lead to excessive downtime, increase maintenance costs, and decrease accuracy and dependability.

Economic Analyses have been performed on individual projects when required and are available upon request.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Purchase Justification  
(\$ in Millions)**

AUTOMATED DATA PROCESSING EQUIPMENT (ADPE) AND TELECOMMUNICATIONS					
Line No	Item Description	Activity Identification	Total cost		
			FY 2012	FY 2013	FY 2014
04-26	Miscellaneous ADPE < \$1M	Industrial Operations			
	Miscellaneous ADPE < \$1M		1.181	2.008	0.000
	<b>Total</b>		<b>1.181</b>	<b>2.008</b>	<b>0.000</b>

*Narrative Justification*

These miscellaneous information management projects replace old/obsolete and unreliable equipment with state-of-the-art equipment.

Replacement of obsolete equipment will improve processing speeds, increase productivity and reduce maintenance costs. Projects allow sites to conform to Army standards and improve communications with other Army sites. New technology will improve security and lessen the threat of access by unauthorized sources.

Without this investment, systems and equipment will continue to be unreliable, downtime will increase and administrative costs will rise. Users will be unable to communicate with higher headquarters, other installations, and customers via electronic means. Data will be at risk for release to unauthorized users.

Economic Analyses have been performed on individual projects when required and are available upon request.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Purchase Justification  
(\$ in Millions)**

Automated Data Processing Equipment (ADPE) and Telecommunications					
Line No	Item Description	Activity Identification	Total Cost		
			FY 2012	FY 2013	FY 2014
06-46	<i>AIT</i>	<i>Industrial Operations</i>			
	Automatic Identification Technology (AIT)		0.107	3.000	0.000
	<b>Total</b>		<b>0.107</b>	<b>3.000</b>	<b>0.000</b>

**Narrative Justification:**

The Army Working Capital Fund (AWCF) Industrial Operations activities currently have extremely limited Automatic Identification Technology (AIT) capability. Current automated capabilities do not tie into an Enterprise Resource Planning (ERP), nor do they send data to shop floor control systems or inventory/accountability systems. This requires depot personnel to manually key data into systems resulting in expenditure of many man hours that could be used to perform other vital depot functions. Presently, AMC installations do not have the required business process hardware to support the use of automated reporting in their respective shop floor operations. They are unable to capitalize on labor/production reporting and material movement essential to delivering a modernized and efficient business solution to the shop floor. Presently AMC depots/arsenals/plants/activities/centers do not have the capability to read radio frequency identification (RFID) and interface with the wide area work flow (WAWF). They are unable to electronically accept vendor pallets and cases and report receipt to the WAWF.

Continued implementation of AIT enterprise will provide state-of-the-art commercial and governmental off-the-shelf solutions that will enable the integration of AIT with AIS for data collection, keyless data entry, processing, storage, retrieval, transmission, and tracking of assets through the use of Radio Frequency Identification (RFID) technology. These funds provide technical engineering services, instruction and training, warranty, maintenance, documentation, and program management support. The modernized capabilities provided by moving from fragmented AIT and IT operations to a more consolidated enterprise solution will provide more efficient operations and optimize limited resources.

Without funding, Army will not conform to OSD mandated AIT, RFID, WAWF and IUID policies. Currently, the intense data requirements require diverting labor and productivity to manually inputting data.

Economic analysis not required. AIT and IUID are directed by OSD; therefore, an EA is not required for AIT and IUID implementation at AMC Industrial facilities. Reference policy memorandum, Acting DUSD (AT&L), 2 Oct 2003.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Purchase Justification  
(\$ in Millions)**

Software					
Line No	Item Description	Activity Identification	Total Cost		
<i>00-02</i>	<i>LMP</i>	<i>Industrial Operations</i>	FY 2012	FY 2013	
			FY 2014		
	Logistics Modernization Program (LMP)		48.960	79.650	75.523
	<b>Total</b>		<b>48.960</b>	<b>79.650</b>	<b>75.523</b>

**Narrative Justification:**

Logistics Modernization Program (LMP) leverages commercial market driven business process improvements. Although LMP is functional at each of AMC's industrial facilities, it continues to require enhancements and upgrades to maintain superior industrial functionality and obtain auditable financial statements. Additionally, it is not yet integrated into overarching Army transformation efforts or extended into shop floor control activities. Work continues to achieve these goals. The budget includes the following LMP enhancements under the LMP Increment II:

- Provides expanded Ammunition management capability; includes standardizing Automatic Identification Technology, centralized production status reporting, and extended supply network collaboration.
- Automates the industrial base shop floor; includes electronic work instructions, elimination of manual processes, improved capacity planning and scheduling, Plant Equipment Maintenance, and Item Unique Identification capability.
- Supports full integration of Army Logistics and Financial Enterprise from the shop floor to the top floor with increased efficiency and effectiveness.
- Incorporates AWCF budgetary processes into the LMP system.

**ECONOMIC INDICATORS:**

Investment Cost                      \$476,994.000    Present Value of Benefits:    \$ 1,287,000.000    Benefit to Investment Ra2.698                      Payback Period: 9.5 Year

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Purchase Justification  
(\$ in Millions)**

Line No	Item Description	Minor Construction		Total Cost	
		Activity Identification	FY 2012	FY 2013	FY 2014
05-26	Various Minor Construction <\$750K	Industrial Operations			
	<i>Minor Construction \$100K &lt; \$750K</i>		25.021	31.703	27.594
	<b>Total</b>		<b>25.021</b>	<b>31.703</b>	<b>27.594</b>

**Narrative Justification:**

Various minor construction projects costing <\$750K, will improve the efficiency of the industrial operations through new, modernized additions to renovate existing facilities. The construction projects are additions or modifications to meet mission needs and improve the quality of life (safety/environmental concerns).

The efficiency of the mission work will improve with better plant layout, better electrical distribution, and improved lighting, heating, ventilation and air conditioning. The projects specific to quality of life improvements will improve worker morale and eliminate potential health and safety concerns.

Economic Analyses have been performed on individual projects when required and are available upon request.

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

<b>FY12</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/ Deficiency</b>	<b>Explanation</b>
<b>EQUIPMENT</b>							
<b>EQUIPMENT - Replacement</b>							
FY12	DCRF Bridge Crane	0.000	2.440	2.440	2.440	0.000	
FY12	PMB Booth Airframes Cleaning	0.000	3.212	3.212	3.212	0.000	
FY12	FY11 Dynamometer	0.000	0.791	0.791	0.791	0.000	FY12 dollars reprogrammed for FY11 equipment; obligation not included FY12 DFAS 1307 repor
FY12	FY11 FTM1 & FTM 2 Test Stand	0.000	2.709	2.709	2.709	0.000	FY12 dollars reprogrammed for FY11 equipment; obligation not included FY12 DFAS 1307 repor
FY12	FY10 STTS	0.000	6.767	6.767	6.767	0.000	FY12 dollars reprogrammed for FY10 equipment; obligation not included FY12 DFAS 1307 repor
FY12	Paint Kitchen	0.000	0.485	0.485	0.485	0.000	
FY12	Electrical Discharge Machine (EDM) Replacemen	0.000	0.411	0.411	0.411	0.000	
FY12	LM-STAR Test System	3.836	0.039	3.875	3.875	0.000	
FY12	Clean Room	0.564	(0.300)	0.264	0.264	0.000	
FY12	Paint Booth Replacement	3.869	0.086	3.955	3.955	0.000	
FY12	New Monorail System, Bldg 1180	0.400	0.130	0.530	0.530	0.000	
FY12	Bulldozer D8T CAT DEMIL	0.625	0.007	0.632	0.632	0.000	
FY12	Container Handler Truck, Lift	0.547	(0.047)	0.500	0.500	0.000	
FY12	Mobile Crane with Electromagne	0.380	0.003	0.383	0.383	0.000	
FY12	5-Axis Machining Center	3.434	0.541	3.975	3.975	0.000	
FY12	CNC Vertical Turning Center	1.249	0.448	1.697	1.697	0.000	
FY12	Robotic Welder Building 108	0.370	(0.045)	0.325	0.325	0.000	
FY12	DGRC Media Blast Booth	2.903	(0.084)	2.819	2.819	0.000	
FY12	Hones	0.000	1.962	1.962	1.962	0.000	
FY12	Test Stand	0.000	1.336	1.336	1.336	0.000	
FY12	Hyd Test Stand	0.000	0.683	0.683	0.683	0.000	
FY12	Air blast System	0.000	0.999	0.999	0.999	0.000	
FY12	Metal Pre-processing	0.000	0.590	0.590	0.590	0.000	
FY12	Universal Grinder	0.000	1.533	1.533	1.533	0.000	
FY12	Plating Shop Conversion	0.000	2.080	2.080	2.080	0.000	
FY12	Rotary Blast	0.000	0.483	0.483	0.483	0.000	
FY12	Replace Component Paint Booth	0.320	0.218	0.538	0.538	0.000	
FY12	Robotic Coating System	4.174	0.687	4.861	4.861	0.000	
FY12	Climate Control for Building 315	0.724	0.000	0.724	0.724	0.000	
FY12	Upgrade Barrel Line Bldg 345	0.835	0.000	0.835	0.835	0.000	
FY12	Crossdrive Transmission Test Stand	3.500	0.340	3.840	3.840	0.000	
FY12	Super Stacker Replacement	0.000	0.595	0.595	0.595	0.000	
FY12	Rebuild Heller Mills WV12168 and WV12169	0.750	0.000	0.750	0.750	0.000	
FY12	Rebuild 1000 Ton Hydraulic Press WV12269	0.675	0.281	0.956	0.956	0.000	
FY12	Rebuild Guide Bore WV12502	0.975	0.000	0.975	0.975	0.000	
FY12	New Pull Bore Machine, B35	0.000	2.385	2.385	2.385	0.000	
FY12	New Rapid Bore	0.000	1.361	1.361	1.361	0.000	
FY12	New Rapid Bore Machine	1.200	0.225	1.425	1.425	0.000	
FY12	Two New 26ft CNC Lathes, B35	0.000	4.348	4.348	4.348	0.000	
FY12	Automated Frame Blast & Paint Equipment	5.879	(5.879)	0.000	0.000	0.000	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**



**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

<b>FY12</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/ Deficiency</b>	<b>Explanation</b>
<b>EQUIPMENT</b>							
<b>EQUIPMENT - Replacement cont.</b>							
FY12	New horizontal CNC Mill w/Swiveling Spindle	2.300	(2.300)	0.000	0.000	0.000	
FY12	Stryker Top Coat Paint System	3.172	(3.172)	0.000	0.000	0.000	
FY12	Enclose And AC Engine Rebuild Area	1.560	(1.560)	0.000	0.000	0.000	
FY12	Replace McLeod and Steel Bay	1.271	(1.271)	0.000	0.000	0.000	
FY12	VDATS Automated Test Station	1.876	(1.876)	0.000	0.000	0.000	
FY12	HVAC BCA FY11 Bldg 3, Bay 3 moved from FY11	0.818	(0.818)	0.000	0.000	0.000	
FY12	Rebuild Scharmann Mill WV12317	0.750	(0.750)	0.000	0.000	0.000	
FY12	Jig Grinder	1.637	(1.637)	0.000	0.000	0.000	
FY12	New Composite Winding Machine	2.500	(2.500)	0.000	0.000	0.000	
FY12	Electron Beam Welder	2.471	(2.471)	0.000	0.000	0.000	
FY12	New Inconel Furnace	1.650	(1.650)	0.000	0.000	0.000	
FY12	Rebuild Two S60 Omni Mills WV12342 and WV12343	1.400	(1.400)	0.000	0.000	0.000	
FY12	Replace Power Washers Bldg 345	1.847	(1.847)	0.000	0.000	0.000	
FY12	High Capacity Tool Room Lathe	0.297	(0.297)	0.000	0.000	0.000	
FY12	345 Assembly Line Conveyor System	1.100	(1.100)	0.000	0.000	0.000	
FY12	New Gantry Bed Mill	2.000	(2.000)	0.000	0.000	0.000	
	<b>Subtotal Replacement</b>	<b>63.858</b>	<b>5.171</b>	<b>69.029</b>	<b>69.029</b>	<b>0.000</b>	
<b>EQUIPMENT</b>							
<b>EQUIPMENT - Productivity</b>							
FY12	Dynamic Components Production Equipment	10.348	1.070	11.418	11.418	0.000	
FY12	Aircraft Corrosion Control Equip	16.588	(2.301)	14.287	14.287	0.000	
FY12	Vacuum Furnace	0.999	(0.999)	0.000	0.000	0.000	
FY12	Horizontal Drilling and Boring Mill	2.352	0.980	3.332	3.332	0.000	
FY12	Blade Facility Productivity Equipment	0.000	0.402	0.402	0.402	0.000	
FY12	Stand-Alone Paint Booth	1.100	(0.245)	0.855	0.855	0.000	
FY12	Unit Load End of Aisle Picking, Bldg 370 ASRS	0.625	0.071	0.696	0.696	0.000	
FY12	Rough Terrain Container Handler	0.000	0.697	0.697	0.697	0.000	
FY12	CO2 Laser Cutter	0.000	1.287	1.287	1.287	0.000	
FY12	SCATS	0.000	0.669	0.669	0.669	0.000	
FY12	Wash Out Improvement Air Scrubber	0.000	0.890	0.890	0.890	0.000	
FY12	Terex Super stacker Container Handler	0.000	0.500	0.500	0.500	0.000	
FY12	Bomb Heat Treating System	1.387	0.265	1.652	1.652	0.000	
FY12	Refurbish 120MM Mortar Body Load B. 44-110	1.929	0.890	2.819	2.819	0.000	
FY12	Bio-Detectors Emergency Generators, B. 53-990	0.000	0.281	0.281	0.281	0.000	
FY12	Sandblasting System	0.000	0.400	0.400	0.400	0.000	
FY12	Grinding Machines	0.000	2.548	2.548	2.548	0.000	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

<b>FY12</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/Deficiency</b>	<b>Explanation</b>
<b>EQUIPMENT</b>							
<b>EQUIPMENT - Productivity cont.</b>							
FY12	X1410 Transmission	0.000	1.427	1.427	1.427	0.000	
FY12	Powertrain Claim Settlement	0.000	2.574	2.574	2.574	0.000	FY12 funds used to pay FY05 COE claim
FY12	Aluminum Oxide Blast	0.423	0.543	0.966	0.966	0.000	
FY12	Abrasive Blaster - Twin Table	0.000	0.446	0.446	0.446	0.000	
FY12	Rapid Prototype Machine	0.000	0.470	0.470	0.470	0.000	
FY12	Structural Shape Processing Laser	0.000	1.650	1.650	1.650	0.000	
FY12	CNC Universal Grinder	1.400	0.258	1.658	1.658	0.000	
FY12	X-Ray Vehicle Scanner at CVO ACF	0.000	2.415	2.415	2.415	0.000	
FY12	Anti-Ice Valve Test Stands	0.810	(0.810)	0.000	0.000	0.000	
FY12	Drive-In Shot Blast	1.029	(1.029)	0.000	0.000	0.000	
FY12	Drive-In Wash Booth	0.560	(0.560)	0.000	0.000	0.000	
FY12	Robotic Welding-Modular	0.917	(0.917)	0.000	0.000	0.000	
FY12	7-Axis Horiz Mill	4.774	(4.774)	0.000	0.000	0.000	
FY12	Boring Mill	1.944	(1.944)	0.000	0.000	0.000	
FY12	Blast House	0.400	(0.400)	0.000	0.000	0.000	
FY12	Tube Laser	1.650	(1.650)	0.000	0.000	0.000	
FY12	Vertical Stretch Press	2.174	(2.174)	0.000	0.000	0.000	
FY12	Bridge Crane System Hanger 43	0.384	(0.384)	0.000	0.000	0.000	
FY12	Building 57 Dip Tanks	0.350	(0.350)	0.000	0.000	0.000	
FY12	RotorHead Control/Head Production Equipment	2.361	(2.361)	0.000	0.000	0.000	
FY12	Grit Blast System	0.710	(0.710)	0.000	0.000	0.000	
FY12	Remote Control HES	0.686	(0.686)	0.000	0.000	0.000	
FY12	3/4 Inch Shearing Machine	0.282	(0.282)	0.000	0.000	0.000	
FY12	Forging Press	0.588	(0.588)	0.000	0.000	0.000	
FY12	Various QWE Projects	7.000	(7.000)	0.000	0.000	0.000	Equates to FY12 \$15M (DA)
	<b>Subtotal Productivity</b>	<b>63.770</b>	<b>(9.431)</b>	<b>54.339</b>	<b>54.339</b>	<b>0.000</b>	
<b>EQUIPMENT</b>							
<b>EQUIPMENT - New Mission</b>							
FY12	Various Capital Equipment - New Mission	0.000	0.000	0.000	0.000	0.000	
	<b>Subtotal New Mission</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	
<b>EQUIPMENT - Environmental</b>							
FY12	VOC Upgrade	0.525	(0.525)	0.000	0.000	0.000	
FY12	Airfield Rescue Firefighting Truck (ARFT)	0.739	0.110	0.849	0.849	0.000	
	<b>Subtotal Environmental</b>	<b>1.264</b>	<b>(0.415)</b>	<b>0.849</b>	<b>0.849</b>	<b>0.000</b>	
	<b>Total Various Capital Equipment</b>	<b>128.892</b>	<b>(4.675)</b>	<b>124.217</b>	<b>124.217</b>	<b>0.000</b>	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

FY12	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
<b>ADPE &amp; TELECOMMUNICATIONS EQUIPMENT</b>							
FY12	Miscellaneous ADPE <\$1M	0.265	0.916	1.181	1.181	0.000	
FY12	Automatic Identification Technology (AIT)	21.500	(21.393)	0.107	0.107	0.000	\$21.393 reprogrammed to VCE and LMP Carryover for FY13
	<b>Subtotal ADPE</b>	<b>21.765</b>	<b>(20.477)</b>	<b>1.288</b>	<b>1.288</b>	<b>0.000</b>	
<b>SOFTWARE DEVELOPMENT</b>							
FY12	Army Workload and Performance System (AWPS)	3.133	(2.702)	0.431	0.431	0.000	\$2.702 reprogrammed to LMP Carryover for FY13
FY12	Defense Property Accounting System - Enhanced (DPAS-E)	1.392	0.000	1.392	1.392	0.000	
FY12	Logistics Modernization Program (LMP)	48.960	0.000	48.960	48.960	0.000	
FY12	Environmental Safety and Occupational Health Program (ESOHP)	3.500	(3.500)	0.000	0.000	0.000	\$3.500 reprogrammed to LMP Carryover for FY13
	<b>Subtotal Software</b>	<b>56.985</b>	<b>(6.202)</b>	<b>50.783</b>	<b>50.783</b>	<b>0.000</b>	

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

<b>FY12</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/ Deficiency</b>	<b>Explanation</b>
<b>MINOR CONSTRUCTION</b>							
FY12	Renovate Bldg S-392	0.000	0.441	0.441	0.441	0.000	
FY12	Renovate Bldg S-393	0.000	0.346	0.346	0.346	0.000	
FY12	TRMD Logistics Support Addition	0.000	0.519	0.519	0.519	0.000	
FY12	HVAC Bldg 2 Bay 1	0.000	0.746	0.746	0.746	0.000	
FY12	HVAC BCA FY13	0.742	0.000	0.742	0.742	0.000	
FY12	HVAC Forward Repair Bldg 2 Bay 6 (Bldg 2 RTC HVAC)	0.000	0.355	0.355	0.355	0.000	
FY12	Restroom Bldg 2 Bay 5 (Bldg 2 for ADAM Cell)	0.000	0.305	0.305	0.305	0.000	
FY12	Building 3 Restroom Improvements	0.572	(0.326)	0.246	0.246	0.000	
FY12	HVAC BCA Bldg 3, Bay 3	0.000	0.750	0.750	0.750	0.000	
FY12	Service Magazine for Demo Pit at ADMC	0.700	0.000	0.700	0.700	0.000	
FY12	Small Arms Ammo Magazine	0.700	0.000	0.700	0.700	0.000	
FY12	Propellant Thermal Treatment Facility	0.000	0.749	0.749	0.749	0.000	
FY12	Inert Storage 2350	0.000	0.629	0.629	0.629	0.000	
FY12	Magazine Support Facility	0.000	0.744	0.744	0.744	0.000	
FY12	Lunch and Locker Bldg 174	0.000	0.706	0.706	0.706	0.000	
FY12	Manufacturing Facility Upgrade Bldg 165	0.711	0.019	0.730	0.730	0.000	
FY12	Bldg 100 Addition	0.000	0.493	0.493	0.493	0.000	
FY12	Upgrade Fire Protection System, B. 33-570	0.496	(0.221)	0.275	0.275	0.000	
FY12	Carpenter Shop Addition, B. 34-93C	0.000	0.614	0.614	0.614	0.000	
FY12	Upgrade bldg 594	0.000	0.457	0.457	0.457	0.000	
FY12	AEMD Opgs Building	0.000	0.743	0.743	0.743	0.000	
FY12	Vehicle Staging	0.000	0.733	0.733	0.733	0.000	
FY12	Fire Station Expansion	0.000	0.725	0.725	0.725	0.000	
FY12	Upgrade Old Small Arms Bldg 129	0.000	0.746	0.746	0.746	0.000	
FY12	Central Fire Alarm	0.000	0.719	0.719	0.719	0.000	
FY12	In-Process Storage Shed, Bldg 190	0.725	0.000	0.725	0.725	0.000	
FY12	Upgrade Vehicle Staging Area - Test Track	0.000	0.749	0.749	0.749	0.000	
FY12	Cover Area Between B/W Paint Booth	0.000	0.744	0.744	0.744	0.000	
FY12	Bldg 493 Security Fencing and Lighting	0.730	0.000	0.730	0.730	0.000	
FY12	Expand Building 106 (Pass & ID) Facilities, Restrooms & Parking	0.708	0.012	0.720	0.720	0.000	
FY12	Construct 7 Acre Hardstand	0.749	(0.001)	0.748	0.748	0.000	
FY12	Airfield Crash Crew Building	0.264	0.000	0.264	0.264	0.000	
FY12	Airfield Operations Building	0.396	0.000	0.396	0.396	0.000	
FY12	Truck Docks Offload Facility	0.000	0.644	0.644	0.644	0.000	
FY12	LAMS (Shelter) & Pad for EoFLCC Parts Storage	0.000	0.463	0.463	0.463	0.000	
FY12	Centralized Restrooms, Break rooms, & Offices in Warehouse Facility	0.000	0.296	0.296	0.296	0.000	
FY12	Replace Substation 2A1 Medium Voltage Switchgear	0.000	0.726	0.726	0.726	0.000	
FY12	Upgrade Fire Alarm Systems in Bldg 135	0.000	0.749	0.749	0.749	0.000	
FY12	Replace Underground Electrical Cables	0.000	0.274	0.274	0.274	0.000	
FY12	Upgrade Fire Alarm Systems in Bldg 136	0.000	0.501	0.501	0.501	0.000	
FY12	Upgrade Fire Alarm Protection System, B25	0.000	0.508	0.508	0.508	0.000	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

FY12	Approved Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
<b>MINOR CONSTRUCTION, cont.</b>							
FY12	Upgrade Fire Alarm Sys, Strg and Lt Mfg	0.000	0.279	0.279	0.279	0.000	
FY12	Replace Substation 3A3A, B3E	0.000	0.592	0.592	0.592	0.000	
FY12	Lightning, Break Room Upgrade Bldg 160	0.462	(0.462)	0.000	0.000	0.000	
FY12	Fire/Lightning/Break Room Upgrade Bldg 104	0.733	(0.733)	0.000	0.000	0.000	
FY12	Building 72A Addition (SMART-T)	0.749	(0.749)	0.000	0.000	0.000	
FY12	Tire Shop	0.501	(0.501)	0.000	0.000	0.000	
FY12	Infrastructure Improvements Building 3	0.747	(0.747)	0.000	0.000	0.000	
FY12	Upgrade Fire Protection System, B. 33-670	0.395	(0.395)	0.000	0.000	0.000	
FY12	Upgrade Fire Protection System, B. 32-610	0.548	(0.548)	0.000	0.000	0.000	
FY12	Heating Replacement Building 508	0.703	(0.703)	0.000	0.000	0.000	
FY12	Security Visitors Center Addition	0.749	(0.749)	0.000	0.000	0.000	
FY12	Construct North Pad Upgrade at Annistor	0.735	(0.735)	0.000	0.000	0.000	
FY12	Construct Service Magazine South Pad Complex	0.700	(0.700)	0.000	0.000	0.000	
FY12	Construct Inert Storage Building, ADMC	0.630	(0.630)	0.000	0.000	0.000	
FY12	Hot Salt Bath Cleaning Area, Bldg 40E	0.723	(0.723)	0.000	0.000	0.000	
FY12	Building 213 Wash Rack Upgrade	0.633	(0.633)	0.000	0.000	0.000	
FY12	Dock Hardstand Area	0.748	(0.748)	0.000	0.000	0.000	
FY12	Administrative Building for HMMS Personne	0.749	(0.749)	0.000	0.000	0.000	
FY12	Support Equipment Division Storage Area	1.471	(1.471)	0.000	0.000	0.000	
FY12	Mail Facility	0.740	(0.740)	0.000	0.000	0.000	
FY12	Electrical System Upgrade	0.725	(0.725)	0.000	0.000	0.000	
FY12	Consolidated Equipment Maintenance Facility, Bldg 13:	0.747	(0.747)	0.000	0.000	0.000	
FY12	Inert Storage Facility	0.604	(0.604)	0.000	0.000	0.000	
FY12	Defense Non-Tactical Generator And Rail Center	7.113	(7.113)	0.000	0.000	0.000	
FY12	Alteration to Building 531	0.744	(0.744)	0.000	0.000	0.000	
FY12	South Boundary Fencing	0.720	(0.720)	0.000	0.000	0.000	
FY12	Heat & Insulate Warehouse	0.550	(0.550)	0.000	0.000	0.000	
FY12	Provide Fire Protection System	0.500	(0.500)	0.000	0.000	0.000	
FY12	Build Battery Charging Station	0.158	(0.158)	0.000	0.000	0.000	
FY12	Construct Radiator Shop Facility	0.595	(0.595)	0.000	0.000	0.000	
FY12	Engine/Trans Equipment Maintenance Facility	0.740	(0.740)	0.000	0.000	0.000	
FY12	Stryker Topcoat Facility	0.741	(0.741)	0.000	0.000	0.000	
FY12	Power pack Mating Facility	0.725	(0.725)	0.000	0.000	0.000	
FY12	Various QWE Projects	8.000	(8.000)	0.000	0.000	0.000	Equates to FY12 \$15M (DA)
	<b>Subtotal Minor Construction</b>	<b>42.871</b>	<b>(17.850)</b>	<b>25.021</b>	<b>25.021</b>	<b>0.000</b>	
	<b>TOTAL</b>	<b>250.513</b>	<b>(49.204)</b>	<b>201.309</b>	<b>201.309</b>	<b>0.000</b>	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

Army Working Capital Fund  
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Capital Budget Execution  
(\$ in Millions)

FY13	Project Title	Approved Project Amount	Reprogs	Approved Proj Cost	Current Proj Cost	Asset/ Deficiency	Explanation
	<b>EQUIPMENT</b>	<b>83.609</b>	<b>0.000</b>	<b>83.609</b>	<b>83.609</b>	<b>0.000</b>	
FY13	<b>EQUIPMENT-Replacement</b> Various Capital Equipment - Replacement	40.953	0.000	40.953	40.953	0.000	
FY13	<b>EQUIPMENT-Productivity</b> Various Capital Equipment - Productivity	40.931	0.000	40.931	40.931	0.000	
FY13	<b>EQUIPMENT - New Mission</b> Various Capital Equipment - New Mission	0.000	0.000	0.000	0.000	0.000	
FY13	<b>EQUIPMENT-Environmental</b> Various Capital Equipment - Environmental	1.725	0.000	1.725	1.725	0.000	
	<b>ADPE &amp; TELECOMMUNICATIONS EQUIPMENT</b>	<b>5.008</b>	<b>0.000</b>	<b>5.008</b>	<b>2.008</b>	<b>3.000</b>	
FY13	Miscellaneous ADPE < \$1M	2.008	0.000	2.008	2.008	0.000	
FY13	Automatic Identification Technology (AIT)	3.000	0.000	3.000	0.000	3.000	
	<b>SOFTWARE DEVELOPMENT</b>	<b>79.650</b>	<b>0.000</b>	<b>79.650</b>	<b>79.650</b>	<b>0.000</b>	
FY13	Army Workload and Performance System (AWPS)	0.000	0.000	0.000	0.000	0.000	
FY13	Expanded Ammunition Functionality with LMP	0.000	0.000	0.000	0.000	0.000	
FY13	Defense Property Accounting System - Enhanced (DPAS-E)	0.000	0.000	0.000	0.000	0.000	
FY13	Logistics Modernization Program (LMP)	79.650	0.000	79.650	79.650	0.000	
FY13	Integration of AIT with LMP	0.000	0.000	0.000	0.000	0.000	
	<b>MINOR CONSTRUCTION</b>	<b>31.703</b>	<b>0.000</b>	<b>31.703</b>	<b>31.703</b>	<b>0.000</b>	
FY13	Various Minor Construction <\$750K	31.703	0.000	31.703	31.703	0.000	
	<b>TOTAL</b>	<b>199.970</b>	<b>0.000</b>	<b>199.970</b>	<b>196.970</b>	<b>3.000</b>	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

**Army Working Capital Fund  
Fiscal Year (FY) 2014 Budget Estimates  
Industrial Operations**

**Capital Budget Execution  
(\$ in Millions)**

<b>FY14</b>	<b>Approved Project Title</b>	<b>Approved Project Amount</b>	<b>Reprogs</b>	<b>Approved Proj Cost</b>	<b>Current Proj Cost</b>	<b>Asset/ Deficiency</b>	<b>Explanation</b>
	<b>EQUIPMENT</b>	<b>74.950</b>	<b>0.000</b>	<b>74.950</b>	<b>74.950</b>	<b>0.000</b>	
FY14	<b>EQUIPMENT - Replacement</b> Various Capital Equipment - Replacement	28.709	0.000	28.709	28.709	0.000	
FY14	<b>EQUIPMENT - Productivity</b> Various Capital Equipment - Productivity	46.241	0.000	46.241	46.241	0.000	
FY14	<b>EQUIPMENT - New Mission</b> Various Capital Equipment - New Mission	0.000	0.000	0.000	0.000	0.000	
FY14	<b>EQUIPMENT-Environmental</b> Various Capital Equipment - Environmental	0.000	0.000	0.000	0.000	0.000	
	<b>ADPE &amp; TELECOMMUNICATIONS EQUIPMENT</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	
FY14	Miscellaneous ADPE < \$1M	0.000	0.000	0.000	0.000	0.000	
FY14	Automatic Identification Technology (AIT)	0.000	0.000	0.000	0.000	0.000	
	<b>SOFTWARE DEVELOPMENT</b>	<b>75.523</b>	<b>0.000</b>	<b>75.523</b>	<b>75.523</b>	<b>0.000</b>	
FY14	Army Workload and Performance System (AWPS)	0.000	0.000	0.000	0.000	0.000	
FY14	Expanded Ammunition Functionality with LMP	0.000	0.000	0.000	0.000	0.000	
FY14	Defense Property Accounting System - Enhanced (DPAS-E)	0.000	0.000	0.000	0.000	0.000	
FY14	Logistics Modernization Program (LMP)	75.523	0.000	75.523	75.523	0.000	
FY14	Integration of AIT with LMP	0.000	0.000	0.000	0.000	0.000	
	<b>MINOR CONSTRUCTION</b>	<b>27.594</b>	<b>0.000</b>	<b>27.594</b>	<b>27.594</b>	<b>0.000</b>	
FY14	Various Minor Construction <\$750K	27.594	0.000	27.594	27.594	0.000	
	<b>TOTAL</b>	<b>178.067</b>	<b>0.000</b>	<b>178.067</b>	<b>178.067</b>	<b>0.000</b>	

**EXHIBIT FUND 9c  
CAPITAL BUDGET EXECUTION**

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## Soldier's Creed

*I am an American Soldier.*

*I am a Warrior and a member of a team.*

*I serve the people of the United States and live the Army Values.*

*I will always place the mission first.*

*I will never accept defeat.*

*I will never quit.*

*I will never leave a fallen comrade.*

*I am disciplined, physically and mentally tough, trained and proficient in my warrior tasks and drills.*

*I always maintain my arms, my equipment and myself.*

*I am an expert and I am a professional.*

*I stand ready to deploy, engage, and destroy the enemies of the United States of America in close combat.*

*I am a guardian of freedom and the American way of life.*

*I am an American Soldier.*

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