

**CHAPTER 2. WCF FINANCIAL MANAGEMENT**

**TABLE OF CONTENTS**

2.1 OVERVIEW.....2-1

2.2 POLICY.....2-1

2.3 AUTHORITIES AND REFERENCES.....2-2

2.4 ROLES AND RESPONSIBILITIES. ....2-2

2.5 DEFINITIONS.....2-3

2.6 FUNDS MANAGEMENT.....2-4

2.7 STABILIZED PRICE AND RATE MANAGEMENT .....2-5

2.8 CASH MANAGEMENT.....2-6

2.9 REVENUE RECOGNITION.....2-8

2.10 FULL COST MANAGEMENT. ....2-8

2.11 NET OPERATING RESULTS (NOR).....2-9

2.12 WCF ACCOUNTING .....2-9

2.13 FINANCIAL REPORTING.....2-10

**CHAPTER 2. WCF FINANCIAL MANAGEMENT**2.1 OVERVIEW.

2.1.1 This chapter establishes National Aeronautics and Space Administration (NASA) Working Capital Fund (WCF) financial management policies for the management of the WCF with particular emphasis on those areas that differ from the financial management requirements of appropriated funds.

2.2 POLICY.

2.2.1 Conformance with Policy Issuances. The financial management and financial operations of each WCF business entity shall comply with all the applicable policies and requirements applicable to Federal Agencies including those contained in Federal legislation; the concepts, standards and other issuances of the Federal Accounting Standards Advisory Board (FASAB); requirements issued by the Office of Management and Budget (OMB); and the U.S. Treasury Department. Also, the policies, procedures, and reporting requirements contained within the other Volumes of NASA Financial Management Requirements (FMR) apply to NASA WCF business entities unless otherwise specified.

2.2.2 Operational Funding. The WCF operations are funded by the reimbursements it receives from its customers for the goods or services it provides. This arrangement is stated in Title 42 United States Code (U.S.C.) § 2459i as follows. "The fund shall be reimbursed, in advance, for supplies and services at rates that will approximate the expenses of operation, such as the accrual of annual leave, depreciation of plant, property and equipment, and overhead."

2.2.3 Availability of WCF resources. Amounts earned by the WCF are available without fiscal year limitation. This authority is found in Title 42 U.S.C. § 2459i, "Amounts in the fund are available without regard to fiscal year limitation." With regard to funds provided by customer orders, this unlimited availability only applies to amounts that have been earned by the WCF and recorded as revenue. The unearned amount of advances for customer orders retains the fiscal year limitation of the customer's appropriation.

2.2.4 NASA WCF Reimbursement Concept. NASA WCF business entities shall charge for goods and services provided. A NASA WCF business entity shall operate in a business-like manner, recovering full costs for goods and services provided based on a price schedule established through a rate-setting process. The amount charged to the customer, in addition to operating expense recovery shall include amounts sufficient to finance continuing operations, acquire capital assets, and adjust for prior year results of operations.

2.2.5 Distinction Between a WCF Business Entity and a Reimbursable Agreement. A fundamental distinction between the WCF and a reimbursable agreement is

that the NASA WCF bills its customers a pre-set price for the good or service it provides while, under a reimbursable agreement, a customer is billed for costs incurred. The pre-set price billed by the WCF is designed to recover the operating and capital budget costs of the performing WCF business entity. However, during execution of the order, the price may be more than, or less than costs incurred by the WCF entity. This is normal and expected because the price is usually set in advance of performance so that the ordering activity can better budget for the acquired service. The WCF rates established for subsequent fiscal years are adjusted up or down based on any current year operating losses or gains in order to avoid accumulating gains or losses in the fund over time.

## 2.3 AUTHORITIES AND REFERENCES.

### 2.3.1 External Authorities and References.

- A. Title 42 U.S.C. § 2459j. The February 20, 2003, law that authorized the NASA Working Capital Fund.
- B. 31 U.S.C. § 3515, "Financial Statements of Agencies"
- C. Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting"
- D. OMB Circular No. A-136, Financial Reporting Requirements
- E. Department of Treasury, Financial Manual, Supplement No. 2, U.S. Standard General Ledger (USSGL), Part 1, Fiscal Year 2008 Reporting T/L S2 08-03

### 2.3.2 NASA Authorities and References.

- A. Financial Management Requirements (FMR), Volume 4, Budget Formulation
- B. FMR Volume 5, *Budget Execution*
- C. FMR Volume 16, *Reimbursable Agreements*

## 2.4 ROLES AND RESPONSIBILITIES.

### 2.4.1 Agency Chief Financial Officer (CFO) shall:

- A. Establish procedures ensuring that NASA WCF financial policies are implemented.
- B. Exercise oversight with regards to WCF financial management and financial operations.

- C. Develop accounting and financial management reports to satisfy external reporting requirements, and to support the management responsibilities of WCF management and the Agency Office of the Chief Financial Officer.
- D. Advise NASA Headquarters, Center, and WCF managers on the accounting and reporting policies used in the NASA WCF.
- E. Issue WCF instructions when necessary to provide for unique requirements within a WCF business entity and to provide detailed operating instructions.
- F. Monitor compliance with this guidance and other policy issuances through analysis of reports, audits, and reviews of business entity operations.

#### 2.4.2 WCF Business Entity Manager.

- A. Provide periodic financial and management information as required by the NASA CFO.
- B. Document and maintain records on information used to establish rates and prices, as well as specific methods used to determine them.
- C. Incur obligations and costs as necessary and allowable to perform the business entity mission.
- D. Control costs in line with the annual operating budget as approved by the NASA CFO.
- E. Actively manage the business entity cash balance in order to maintain the required level of operation cash.

### 2.5 DEFINITIONS.

- 2.5.1 Accumulated Operating Results (AOR). Represents the net difference since the inception of the business entity between (1) expenses and losses, and (2) financing sources including appropriations, revenues, and gains.
- 2.5.2 Amortization. The process of spreading the cost of an intangible asset over the expected useful life of the asset. For example: a company pays \$100,000 for a patent, they amortize the cost over the 16-year useful life of the patent.
- 2.5.3 Anticipated Reimbursements. An estimate of reimbursements expected to be earned during the current fiscal year.
- 2.5.4 Cost Allocation. A method of assigning costs to activities, functions, or outputs.
- 2.5.5 Cost Per Output. The term Cost per Output is synonymous with Unit Cost. It is the relationship of resources consumed to outputs produced. Simply

stated: the Cost of Resources divided by the Number of Outputs equals the Cost per Output or Unit Cost.

- 2.5.6 Depreciation. Amount of expense charged against business entity earnings to recognize the cost of a capital asset over its useful life.
- 2.5.7 Expenditure. The dollar value of goods and services received for which payment (cash outlay) has been made. Expenditure differs from expense in that expense refers to the consumption (use) of a good or service.
- 2.5.8 Fixed Costs/Expenses. Operating expenses that are incurred to provide facilities and organization that are kept in readiness to do business without regard to actual volumes of production and sales. Fixed costs remain relatively constant until changed by managerial decision. Within general limits they do not vary with business volume.
- 2.5.9 Indirect Cost. That portion of cost that is indirectly expended in providing a product or service for sale (cannot be traced to a given cost object in an economically feasible manner) and is included in the calculation of Cost of Goods Sold, (i.e. rent, utilities, equipment maintenance, etc.).
- 2.5.10 Stabilized Rates. The cost customers are charged for the goods and services provided by a WCF business entity. A stabilized rate is established for the fiscal year(s) budget being formulated during the budget review process. The stabilized rate is determined by taking the approved output measure for the budget year and adjusting it for changes in the costs of purchases and for the impact of prior year gains or losses as reflected by the Accumulated Operating Result and other needs for working capital. This annual stabilized rate is the rate that shall be charged for all new customer orders received and accepted during that specific fiscal year, regardless of the fiscal year the work is actually executed and billed.
- 2.5.11 Standard Price. The price customers are charged and which remains constant throughout a fiscal year except for the correction of significant errors or other extraordinary events and then, only with approval of the NASA CFO.
- 2.6 FUNDS MANAGEMENT.
- 2.6.1 Financial resources to establish the working capital fund and to permit continuing operations are generated by reimbursements received in advance for goods provided or services performed by the NASA WCF. A budgetary resource, that is immediately available for outlay even though the outlay may not occur until a future date, must support all NASA WCF obligations. A sufficient fund balance with the Treasury must support all NASA WCF cash outlays.
- 2.6.2 Recording Anticipated Reimbursements. Effective 1 October of each fiscal year and based upon the approved budget, each NASA WCF business entity shall record its anticipated reimbursements for the fiscal year. The value recorded as anticipated reimbursements is an estimate of the annual dollar

volume of business expected. Each customer order accepted reduces anticipated reimbursements dollar for dollar. At fiscal year end, any remaining balance of anticipated reimbursements is reduced to zero. Although entry of the anticipated reimbursements involves the use of budgetary accounts, it does not provide budgetary resources available for obligation. Reimbursable budgetary resources are available until customer orders are received and accepted.

- 2.6.3 Antideficiency Act. The Antideficiency Act shall apply to the NASA WCF at the Treasury account level, i.e., 80X4546 rather than at a lower level such as NASA Center or WCF business entity. See FMR Volume 10, *Antideficiency Act* for a full description of the Antideficiency Act requirements.
- 2.6.4 Restrictions on Use of Customer Appropriations. Statutory limitations and restrictions imposed on the appropriated funds of a NASA WCF customer are not changed when the customer places an order with the NASA WCF. A NASA WCF customer cannot use its appropriated funds to do indirectly, (i.e., through placement of an order with a NASA WCF business entity, what it is not permitted to do directly). Thus, the availability of an appropriation cannot be expanded or otherwise changed by transfer to the NASA WCF. Appropriated funds cited on customer orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The customer is primarily responsible for the determination of the applicability of the ordering appropriation. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the order should be returned with a request for an applicable appropriation cite.

## 2.7 STABILIZED PRICE AND RATE MANAGEMENT.

- 2.7.1 The NASA WCF business entities operate on a break-even basis. Customer prices and rates shall be established on an end product basis whenever feasible. The term "end product" means the good or service requested by the customer (output) rather than processes or other inputs in the achievement of the requested output (for example, the product requested rather than the direct labor hours expended in the achievement of that product).
- 2.7.2 Prices and rates are required to be established during the budget process at levels estimated to recover the planned cost of goods or services to be provided, prior period gains and losses occurring as a result of variations in program execution, as well as, approved surcharges for capital asset acquisition and other Center CFO approved purposes. The budget process is the mechanism used to ensure that adequate resources are budgeted in the customer's appropriated fund accounts to pay the established prices and rates. Specific budget formulation requirements are contained in FMR Volume 4, *Planning, Programming, Budgeting, and Execution*.
- 2.7.3 Private parties and concerns when authorized by law including foreign governments, state and local governments shall reimburse the NASA WCF

for the full costs incurred by the federal government. Full costs for foreign governments, state and local government, and private party sales shall include unfunded costs that are not charged to the NASA or other federal government customers (such as unfunded civilian retirement and postretirement health benefits cost). NASA shall not retain amounts collected for unfunded civilian retirement and postretirement health benefits costs, rather, such amounts shall be credited to the general fund of the U.S. Treasury as miscellaneous receipts.

- 2.7.4 Prices and rates shall remain stabilized for the entire fiscal year except that the NASA CFO may, upon request of a WCF business entity, authorize a change in the price or rate schedule during a fiscal year.

## 2.8 CASH MANAGEMENT.

- 2.8.1 Advances/Cash. The Agency's FY 2003 appropriation language provides that "...The fund shall be reimbursed, in advance, for supplies and services at rates that will approximate the expenses of operations..." Accordingly, the WCF business entities shall be advanced funds identified in WCF customer orders during the fiscal year, as required, to enable the WCF activity to pay for its costs of operation.

### 2.8.2 WCF Cash Balance.

- A. The cash management policy is to maintain the minimum cash balance necessary to meet both operational requirements and disbursement requirements in support of the capital program. Cash generated from operations is the primary means of maintaining adequate cash levels. The ability to generate sufficient cash is dependent on setting rates to recover full costs to include prior year losses; accurately projecting workload; and meeting established operational goals.
- B. Any transfers of cash between NASA WCF business entities shall not be made without prior consultation with and approval of the NASA CFO.
- C. WCF business entities shall justify their cash level but, ordinarily, should maintain at least 30 workdays of operational cost plus cash adequate to meet six months of capital disbursements. Cash levels shall be calculated using the following formula: Total operating budget disbursements for a fiscal year divided by either 260 or 261 available workdays in a fiscal year multiplied by the number of days cash desired. This amount is then added to the projected disbursements for six months of Capital Investment Program Outlays.
- D. To facilitate the cash management process, WCF business entities shall develop a cash plan that includes a monthly phasing of estimated collections, disbursements, appropriations, and other cash transactions. This annual cash plan shall be initially developed during the budget process and will be an integral part of the budget document. The cash plans should lead to increased management attention and result in

reduced costs, and timely billings, collections, and disbursements. The cash plan shall be used to compare actual cash to plan cash during budget execution. The cash plan shall be provided to NASA CFO at the beginning of each quarter.

- E. WCF business entities that fail to maintain adequate cash reserves will be required to follow the actions identified in the following table. In general, falling cash levels will necessitate a higher level of senior WCF management oversight--ultimately leading to cessation of business operations in the extreme case. Business entities shall be responsible for developing and implementing remedial action plans to bring cash reserves to the appropriate level at the soonest possible time.

**Table 2-1 Cash Balance Status Management Actions**

<b>Actual Days of Cash On Hand</b> Based on 30-day cash-on-hand requirements of FMR Vol. 17	<b>Calculated Days</b> Based on calculated cash reserve level	<b>Required WCF Service Provider Actions</b>
<b>60</b> Days	<b>2 x</b> Calculated Cash Reserve Level	Continue active cash management.
<b>45</b> Days	<b>1.5 x</b> Calculated Cash Reserve Level	Begin more-detailed cash management to understand factors driving cash levels down. Notify WCF Management Team if reserve levels continue to fall (notification required below 35 days cash on hand or 1.2x calculated cash reserve level).
<b>30</b> Days	<b>1 x</b> Calculated Cash Reserve Level	WCF Management Team and DCFO must be notified of any service provider whose cash balance falls below 30 days or their calculated cash reserve level. The WCF Management Team will receive weekly updates until the cash levels rise above this threshold. Furthermore, based on remedial actions proposed by the service provider, the Management Team and/or DCFO may require a meeting to discuss proposal.
<b>20</b> Days	<b>2/3 x</b> Calculated Cash Reserve Level	CFO must formally approve cash reserve levels below 20 days. Service provider must put more-aggressive remedial action plan in place to resolve cash shortfall. WCF Management Team must be notified of all new disbursements
<b>10</b> Days	<b>1/3 x</b> Calculated Cash Reserve Level	CFO must be briefed on a weekly basis on the current reserve levels and progress on implementing the remedial action plan. All new disbursements must be approved by the WCF Management Team.

2.9 REVENUE RECOGNITION.

- 2.9.1 The percentage of completion method shall be used by all WCF business entities for recognizing revenue and costs on all customer orders. Under this method, the revenue earned and associated costs incurred on an order shall be recognized at least monthly. Revenue and costs must be recognized in the same accounting period. The amount of revenue recognized cannot exceed the amount specified in the customer order.

2.10 FULL COST MANAGEMENT.

- 2.10.1 The objective of NASA full cost management is to allocate all NASA costs to major activities and thereby enhance cost-effective mission performance by providing managers with information on infrastructure costs, and their relationship to projects to better support plans and decisions. Under the full cost approach all costs will be allocated to projects. See FASAB Statement 4, Managerial Cost Accounting and FMR Volume 7, Cost for details regarding cost identification and management.

2.10.2 Annual Leave.

- A. NASA's FY 2003 appropriation language provides that "...The fund shall be reimbursed, in advance, for supplies and services at rates that will approximate the expenses of operations, such as the accrual of annual leave."
- B. Accounting for Accrued Annual Leave of Current Employees. The accounting treatment of annual leave within a WCF differs from that of an appropriated fund. In an appropriated fund, the accrual of annual leave is unfunded. However, as required by the NASA WCF appropriation language and OMB Circular No. A-11, Preparation, Submission and Execution of the Budget, the accrual of annual leave within the NASA WCF is funded. Therefore, the rate charged by a WCF business entity to its customers shall include an amount estimated sufficient to fund accrued annual leave.
- C. Accounting for Accrued Annual Leave of Terminated Employees. Employees terminate service when they leave (i.e., retire from) federal government service. When an employee terminates service, he/she is paid for accrued annual leave. It is only at this point that an obligation for annual leave payable is recorded in addition to the normal payroll accrual obligation.
- D. Accounting for Accrued Annual Leave of Transferred Employees. Personnel assigned from an appropriated fund activity to a WCF business entity generally are accompanied by a liability for the amount of accrued earnings and annual leave earned by those employees prior to their transfer. Ordinarily, payment in the form of cash or other agreed upon equivalent assets such as operating materials and supplies or equipment should be made to the receiving WCF business entity for the amount of

the liabilities assumed. However, in some cases, full payment for liabilities assumed of transferred personnel may not be received.

- E. Amortization of Unfunded Annual Leave. A WCF business entity that does not receive payment from the transferor appropriation to cover the leave liability of civil service employees capitalized into the WCF must include an amount in its rates to fund the unfunded liability. Ordinarily, the leave liability transferred into the fund will be amortized over five years and charged as a WCF operating expense; however, depending upon how a five-year amortization affects customer rates, a WCF business entity may request a longer or shorter amortization period from the NASA CFO.

### 2.10.3 Depreciation of Capital Assets

- A. Depreciation is the recognition of cost over the useful life of the asset. Thus, depreciation expense recovery (through inclusion in stabilized rates or prices) results in a cash accumulation that can be used to acquire assets to replace those wearing out. Recovery of depreciation expense is the primary financing source for the NASA WCF capital investments.
- B. Depreciation of capital equipment will be fully reflected in the operating costs and rates of WCF business entities.
- C. Depreciation expenses shall be calculated and accumulated as required in FMR Volume 20, *Property, Plant, and Equipment and Operating Materials and Supplies*.
- D. Depreciation of capital assets, that are transferred into a WCF business entity without reimbursement that have no preexisting depreciation schedules or accumulated depreciation, shall be calculated based on the net value (original acquisition cost less calculated accumulated depreciation) plus any associated costs for transportation, installation, and other related costs necessary to put the asset into operational use.

## 2.11 NET OPERATING RESULTS (NOR).

- 2.11.1 The NOR provides the overall net operating results expected to be achieved in the WCF by the end of the year. The NOR provides a primary financial management goal and will be used in conjunction with other performance measures to assess the overall operational effectiveness of the business entity. NOR is the net of revenues, expenses, gains and losses of the current fiscal year.

## 2.12 WCF ACCOUNTING.

- 2.12.1 Accounting Requirement. The NASA WCF is required to account for its financial operations in accordance with all accounting principles and polices applicable to the Federal government unless specifically exempted. The

NASA accounting requirements are contained in FMR Volume 6, *Accounting*, and other FMR volumes.

- 2.12.2 The United States Standard General Ledger (USSGL) shall be used by NASA WCF business entities to record budgetary and proprietary accounting transactions on a double-entry basis. The USSGL attributes are one component of detailed data in agency financial systems related to the external reporting financial statements. Each USSGL account has associated attributes related to external financial reporting. Examples of attributes are: (1) Federal/Nonfederal, (2) Trading Partner, (3) Exchange/Nonexchange, (4) Budget Functional Classification, and (5) Custodial/Noncustodial. While the preceding are examples of attributes, it is not an exhaustive list of attributes required by NASA to adequately prepare its financial statements.
- 2.12.3 The Agency OCFO, Director of Financial Management, will develop and maintain the general ledger attributes for both internal and external NASA reporting requirements to include appropriated funds and working capital funds. This shall ensure consistency in the application of those attributes within NASA. In other words, an attribute shall have a common meaning wherever it is used.
- 2.13 FINANCIAL REPORTING.
- 2.13.1 WCF Financial Statement. Under the provisions of Title 31 U.S.C. 3515, the NASA WCF is required to produce audited annual financial statements. The statements will be included in NASA's Annual Performance and Accountability Report. The specific financial statement reporting requirements are contained in OMB Circular No. A-136, Financial Reporting Requirements. NASA FMR Volume 8, *External Reporting* of the FMR also identifies recurring external reporting requirements applicable to the WCF. However, a WCF may develop financial reports specifically designed to assist in management of a WCF business entity.
- 2.13.2 Audits of Financial Statements. Under the provisions of Title 31 U.S.C. § 3515, NASA is required to prepare audited financial statements covering all its accounts and associated activities including the NASA WCF. The NASA WCF business entities are subject to audit by the NASA Inspector General, by the Government Accountability Office, and by other parties when contracted or otherwise authorized. Copies of audit reports shall be submitted to the Agency CFO.