

AD-A158 244 DEFENSE FINANCIAL AND INVESTMENT REVIEW DATA COLLECTION 1/1
PACKAGE(U) TOUCHE ROSS AND CO WASHINGTON DC APR 85
N00600-84-C-2493

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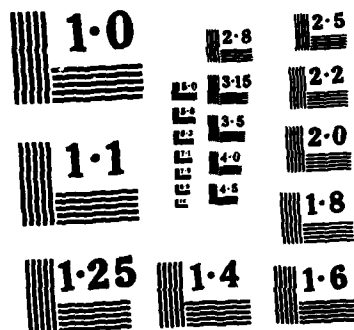
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Defense Financial and Investment Review

Data Collection Package

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Touche Ross & Co. performed a financial data survey to support the Defense Financial and Investment Review study. Data was collected from 76 DoD contractors for the period 1975-1983. The report contains contractor income statement and balance sheet information for the nine-year period by DoD product code groupings. This report is not required to understand the Defense Financial and Investment Review final report, but it does contain financial information which would be useful for additional studies in this area.			



FORM 1473

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Prepared by

Touche Ross & Co.



In accordance with
Contract No. 00600-84-C-2493

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RE: Data Confidentiality
Back up data is confidential but is not
included in this report.
Per Mr. John L. Kendig, DASD(P) (CPF)

DEPARTMENT OF DEFENSE

DEFENSE FINANCIAL AND INVESTMENT REVIEW

DATA COLLECTION PACKAGE

DATA CONFIDENTIALITY

All contractor reported raw data are confidential and will not be referred to or distributed to anyone outside of the immediate Touche Ross project team. Contractor survey forms, project workpapers, and interim results have been excluded from the Freedom of Information Act as they are the sole property of Touche Ross & Co. Special safeguards will be used in preparing analyses and graphics for inclusion in the project report to prevent ready identification of a specific contractor's data.

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW
DATA COLLECTION PACKAGE
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I. BACKGROUND

On 2 December 1983, The Deputy Secretary of Defense initiated a major study of defense contract pricing, financing, and profit policies, now called The Defense Financial And Investment Review, (DFAIR). The purpose of the review is to improve contract pricing, financing, and profit policies to strengthen the defense industrial base and, at the same time, reduce costs for defense goods. As a major step in accomplishing this goal, DFAIR is conducting a survey of the defense industry, to determine the effects of Department of Defense (DoD) existing policies. Touche Ross & Co. has been engaged to analyze and interpret data obtained from this survey. The DFAIR expects the result of this effort to be a recommendation of a comprehensive policy which will recognize the interaction of contract pricing and financing.

II. OBJECTIVES

The primary objective of the Data Collection Package is to provide the data needed to perform an analytical evaluation of DoD policies affecting pricing, profit, financing and capital investments. To that end, data of contractor segments doing substantial amounts of DoD work will be gathered by types of contract, major products, and customer (DoD, Other U.S. Government Agencies, and Commercial).

Profits earned under DoD contracts will be measured as a return on sales, and as a return on investment (ROI) using "assets employed" in the performance of DoD contracts as the investment base. An asset based measurement of ROI was selected because it best lends itself to appraising

operating performance at the segment level (where DoD work is generally performed), and it is consistent with the ROI base used in the Profit 76 study. "Assets employed" are considered assets relevant to DoD contract pricing and costing. Excluded are such assets as advances to, or investments in, other business enterprises, other long-term investments, excess or idle assets and property held for possible future use. Cash and cash equivalents are also excluded for various reasons. Cash is invariably controlled at the corporate offices where it is used for many purposes other than current operations and the amount properly assignable to Government segments would be difficult to estimate. In any event, it would be relatively minor due to the availability of Government financing. Even if a reasonable estimate could be developed, the method devised to allocate cash to segments would be arbitrary, at best. Additionally, cash was excluded from the asset base in the Profit 76 study; hence, analyses of survey results will be accomplished on a consistent basis.

Similarly, the profit being measured is that which is compatible with DoD pricing and costing policies; i.e. it excludes non-relevant income and expenses such as interest revenues, franchise fees and earnings from subsidiaries.

Disclosed profits on DoD contracts will be compared, in the aggregate, to various sources, including (i) negotiated profits, as reflected on the DD Forms 1499, Report on Individual Contract Profit Plan, (ii) profits reported on commercial work performed in the same segment, and (iii) income reported for all durable goods manufacturers in Quarterly Financial Reports (QFR) For Manufacturing, Mining and Trade Corporations, prepared by the

Bureau of the Census, U.S. Department of Commerce. The QFR also provides profit data on selected broad product classifications which can be used for comparison purposes. Similar comparisons of profit data with the QFR were made during the Profit 76 study. Hence, the data now being collected may be useful in assessing whether the desired goals of the Profit 76 profit policy revisions were achieved. The disclosed profit data will also be contrasted, where appropriate, to financial data bases maintained by commercial service organizations.

Another objective of the package is to obtain information on the results of CAS 414 and the related profit policies. DoD is frequently asked to provide data on the impact of CAS 414 and what is being obtained for the expenditure. The collection form requests information which should provide answers to these questions in the proper context, relating the amount to profit, to unallowable interest, and to investment. The data collected on tangible fixed assets will also provide information to measure trends in capital investments. In combination with DD 1499 data, the information should assist in assessing the magnitude of CAS 414's contribution to removing disincentives to productive capital investment by firms in the defense industry.

III. PROCEDURES

The study will be conducted in essentially the same manner as was Profit '76. Briefly stated, the contractor is asked to complete the data collection package in accordance with the instructions furnished in Section IV. Any problems relating to the proper completion of the form, such as circumstances not covered by the instructions, required clarifications of the instructions, etc. should be discussed with the firm's CPAs. If the problem still cannot be resolved it should be referred to Touche Ross & Co.

The completed schedules should be forwarded to the respondent's CPA firm who will verify the accuracy of the information by accomplishing the review steps outlined in the Touche Ross & Co. review program (Attachment III). After completing the verification, the CPAs will forward the completed schedules to Touche Ross & Co., along with a letter advising that it has applied the procedures outlined in the review program; any unresolved differences or other qualifications should be identified. A suggested form letter prepared by Touche Ross & Co. that may be used by the CPAs is provided in this package (Attachment IV).

Touche Ross & Co. will collect and evaluate the responses and attempt to resolve any outstanding problems with the contractor or contractor's CPAs. It will then summarize the data and perform various statistical and ratio analyses designed to develop opinions or conclusions from the data. Their conclusions will be expressed in a report to the Director of the Study Group. Another important function of Touche Ross & Co. will be to insure the confidentiality of contractors' data. Only summary data will be provided to the Study Group. Touche Ross & Co. will not release any

information from which DoD or any other party could derive the input of a single contractor.

IV. INSTRUCTIONS FOR COMPLETING DATA COLLECTION FORM

A. General Package Instructions

1. **General:** The study will cover a period of nine years, commencing 1975 (the year following the last year data was collected for the Profit 76 study) and ending 1983. Financial data is requested on all segments, except active Government owned contractor operated (GOCO) facilities, whose sales and/or inter-segment transfers under DoD negotiated contracts or subcontracts, in any one of the last three fiscal years ended on or before 31 December 1983, were twenty-five percent or more of total segment sales, or more than \$50 million. (A listing of active GOCO facilities is furnished as Attachment II. Data from these facilities should not be included in the responses). If a segment meets the twenty-five percent or \$50 million criteria in one or more of these three years, we request that a data collection form be completed for each of the nine years. However, if a respondent has more than five segments that meet the reporting criteria, data should be furnished on only the five segments with the largest amount of negotiated DoD sales volume.

The extent of data to be furnished varies according to accounting period. Three separate data collection forms titled "Schedule I - Selected Income Statement Items" are included in this package. Schedule IA should be used to provide fiscal year 1983 data, Schedule IB for 1981 and 1982

data and Schedule IC for data pertaining to 1975 through 1980. Please note that the number of data elements has been reduced in Schedule IB and further decreased in Schedule IC, as has the number of column headings. A similar procedure is followed for "Schedule II - Selected Balance Sheet Items." However, rather than furnishing three separate collection forms, parenthetical notes indicating the years for which data need not be furnished have been placed by the relevant data element (this point is discussed further in Section B "Detailed Schedule Instructions."

We are also requesting that the two major products manufactured, researched or developed by the segment be identified, along with the percent of sales of each product to total segment sales. Attachment 1 to the data collection package provides a brief description of very broad product lines and an assigned product type code identified to each product line.

Some of the required information, mainly that relating to Tangible Assets and Other Data, is not available from the accounting records maintained at the segment. Allocations from higher level organizations are required to distribute corporate/group office and service center costs to the participating segments. Further allocations are necessary at the segment to distribute costs between DoD, Other U.S. Government, and Commercial work. Preferred allocation methods are furnished with the definitions of the data elements. Where applicable, the relevant Cost Accounting Standard is cited as providing the acceptable criteria for making the allocations. Where allocation methods are not covered by CAS, a preferred base for making the allocation is identified. If the contractor

believes the preferred base will not result in a reasonable distribution of costs, the problem should be discussed with the firm's CPA. If the CPA agrees, and an alternate base is used, please describe the base used on an attachment to the completed data collection form, appropriately cross referenced to the data element.

Reorganizations may have taken place in the nine year period covered by the study. If so, adjustments to the available data for years preceding the date of reorganization may have to be made for consistency purposes. In order to minimize the effort required to make such adjustments, we request that the data be restated only when required to present the last four years (1980-1983) on a consistent basis.

Additionally, segment data may not be available for the entire nine year period. In such cases please provide the data for the years it is available and indicate, on an attachment to the submission, the years not available and the reasons why.

2. Data Entry

a) **Rounding:** All dollar amounts must be rounded to the nearest million. For example, \$2,533,500 is to be reported as \$3.

b) **Estimates:** When the reporting company's records cannot produce data in the fashion requested by DFAIR, use of estimates is encouraged if the respondent feels a meaningful estimate can be made without significant distortion of results. Where estimates are used,

provide an explanation on a separate sheet of paper and attach it to the appropriate schedule.

Each attachment should be clearly labeled to identify the specific item of data (schedule, line, and column) to which the summary explanation pertains. To indicate that a supplementary explanation has been provided for a particular item of data, mark an "X" in the footnote column of the appropriate schedule.

c) **Supplementary Data:** Survey respondents are encouraged to provide supplementary data should they feel that such data would contribute to the survey. Examples of supplementary data include description of accounting policies, supporting financial data, and an organization chart exhibiting the relationship of major segments in the corporate structure. If supplementary data are provided, mark an "X" in the appropriate box in the footnote column.

3. Definitions

a. **Data Categories**

The data category definitions provided in this section pertain to categories that appear in Schedules I and II. Please refer to these definitions as you review and complete the schedules.

(1) **Corporation #:** A unique three digit number, assigned to each company participating in the study, which is used in lieu of the company name. In order to maintain confidentiality each company will be advised of its number via separate correspondence.

(2) **Segment:** One of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service. The term includes Government-owned contractor operated (GOCO) facilities, and joint ventures and subsidiaries in which the organization has less than a majority of ownership, but over which it exercises control (CAS Part 400.1, Definitions). Please add one digit that will identify the segment to the three digit number assigned by Touche Ross.

(3) **Product Type(s):** A unique number assigned to a broad identification of end items (described in Attachment 1 to the enclosure) manufactured by the segment. The product types were obtained from the DoD Procurement Coding Manual, Volume 1, Commodities and Services Reported on DD Form 350, DoD 4105.61M, Revised as of October 1983. If the segment's activities are devoted to more than one product type indicate the percentage of total segment sales related to each of the two major products.

The product types that are identified should relate to the products manufactured by the respondent rather than the end item into which they may be incorporated. For example, if the respondent manufactures electronics which will eventually be installed in aircraft, product code 7, Electronics, should be identified rather than code 1, Aircraft.

(4) **Fiscal Year:** Note the applicable fiscal year on Schedules IB, IC and Schedule II.

(5) **Number of Employees:** The average number of employees employed at the segment during the year; the average being the number at the beginning, plus the end of the year, divided by two. This information is requested only for fiscal years 1981 through 1983.

(6) **Cost Type:** All sales to DoD, and related costs incurred, under cost reimbursable contracts and subcontracts. Separate columns are provided on Schedule I for (i) direct sales to DoD under prime contracts, (ii) sales to DoD prime contractors or to higher tier subcontractors and (iii) foreign military sales (FMS), defined below. Cost-type contracts include cost plus fixed fee, cost plus award fee, cost plus incentive fee and any other types of contracts referred to as "cost."

(7) **Fixed Price:** All sales to DoD under negotiated fixed price contracts and subcontracts. Sales of catalogue items and sales related to formally advertised procurements should be reported as commercial sales. Separate columns are also provided on Schedule I for sales made to DoD prime contractors or higher tier subcontractors and FMS. Subcontractor sales made under an FMS prime contract should be reported under the "Subcontract" column. Fixed price contracts include firm fixed price, fixed price incentive, time and material and any other contracts which may include the word "fixed" in the title.

(8) **Subcontracts:** Negotiated subcontracts related to DoD prime contracts or higher tier DoD subcontracts. Sales associated with subcontracts awarded under prime contracts of other U.S. Government agencies should be classified as "Other U.S. Government", described below.

Subcontract sales of catalogue items and sales based on established market prices should be included with "Commercial" sales.

(9) **Foreign Military Sales (FMS):** Direct sales to DoD, made under negotiated contracts, for eventual resale to a foreign government. If a foreign military sale was made as part of a larger contract with DoD, report the entire contract as FMS if the majority of sales dollars pertained to FMS work; otherwise, include the contract with DoD prime work. Direct sales to foreign governments should be considered as commercial sales. Subcontract sales made under an FMS prime contract should be reported under the "Subcontract" column.

(10) **Other U.S. Government:** Sales, either directly or as a subcontractor, to agencies of the U.S. Government other than DoD.

(11) **Commercial:** Sales to customers other than the U.S. Government and Foreign Military Sales described above. Also includes sales of catalogue items, sales made under advertised procurements, established market prices and direct sales to foreign governments.

(12) **Classified Programs:** Sales made under classified programs may be reported in the same manner as recorded for financial statement purposes.

(13) **Total Segment:** The sum of columns G, H, and I of Schedule I and columns A, B, and C of Schedule II.

B. Detailed Schedule Instructions

1. Schedule I - Selected Income Statements Items

The following data element descriptions pertain to Schedule I - Selected Income Statement Items. Each data element is identified by a line number which corresponds directly to the line number on which the element appears.

Line 01 Sales: Net sales (gross sales less returns and allowances), as defined by generally accepted accounting principles and used for financial statement purposes, generated through the primary profit directed activities of the segment. If more than 10 percent of a segment's sales, and/or transfers made at cost, were to another segment participating in the survey, adjustments to the booked sales, cost and profit data may be required to eliminate duplicate reporting and to achieve a proper matching of sales, cost, and profit with invested assets. Only inter-segment sales that were not based on "arms length" competitive awards or established market prices should be considered in determining whether the 10 percent criterion was met. Similarly, "arms length" competitive transactions need not be eliminated on inter-segment transactions.

The preferred method for making the adjustment/elimination would be to consider work done by the profit center as if it were accomplished under a prime contract. Hence, if costs were transferred from segment A to segment B they should be removed from segment B's recorded amounts and reported under segment A. Also, if the total profits under the contract

were recorded on segment B's records, a portion should be transferred to segment A. This method is favored over showing all the costs and profits as being incurred by segment B because it credits the respective profit centers with the actual amount of work each accomplished and obviates the need to transfer assets. However, if it is considered more practical to transfer assets, do so and advise on an attachment to the submission.

Line 02 Operating Costs: Properly allocable and, with the exception of contract overrun costs, allowable operating costs that conform to the general cost principles in Section 15, Part 2 of DAR and the procedures for pricing DoD contracts whenever cost analysis is performed and costs are determined by negotiation. For purpose of this study operating costs include cost of goods sold, allowable bid and proposal and research and development, selling, general and administrative expenses and allocations of corporate/group office administrative expenses. However, do not include state and local income taxes which should be furnished under line 07 below. Also, line 08 requests data on other allowable expenses not normally classified on the income statement as operating costs. If respondent's practice is to include such expenses in operating costs they need not be removed and shown separately under line 08. Do not include cost of money as an element of facilities capital (Cas 414) which is being requested as a separate item (see lines 18-21 below).

Contractor's normal allocation methods for Government contract costing purposes may be followed to make the required allocations since they should conform with the relevant cost accounting standards. If CAS 418 and 420 caused a change to the established methods, the methods in

effect prior to the applicability date of the standards can be used to complete the data collection form. The relevant cost accounting standards are:

(1) CAS 403, Allocation of Home Office Expenses to Segments.

(2) CAS 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives.

(3) CAS 418, Allocation of Direct and Indirect Costs.

(4) CAS 420, Allocation of Independent Research and Development and Bid and Proposal Costs.

Line 03 Generated In-House: Total operating costs less purchased direct materials and subcontracts. All overhead, including material related burden, should be included in this category. Subcontracts for purchased engineering services, if performed in contractor's facilities, should be included if significant; i.e. if the costs exceed 10 per cent of total segment's engineering labor.

Line 04 Purchased Direct Materials and Subcontracts: Total operating costs less the amount reported on (Line 03) above.

Line 05 Total Operating Costs: The sum of lines 03 and 04.

Line 06 Other Costs: Includes allowable items which do not meet the definition of "operating costs" furnished above.

Line 07 State and Local Income Taxes: Report only allowable state and local income taxes allocable to the segment's operations for the year. Normal allocation practices, following CAS 403, should be used to allocate costs to segments. At the segment level, the costs can be allocated in the same manner as G&A expenses (CAS 410).

Line 08 Other Expenses (Income): The net amount of other allowable costs, and offsetting income items, that should be considered in determining total contract costs. Examples are gains and losses on the sale of depreciable property and rental income which offsets, in part, the total cost of facilities charged to the Government. The net amount can be allocated based on operating costs.

Line 09 Total Other Costs: The total of lines 07 and 08, above.

Line 10 Sales Less Allowable Costs: Sales less operating and other costs. This amount should provide the "allowable" return on Government contract costs.

Line 11 Unallowable Costs: With the exception of contract overrun costs, costs which are unallowable within the meaning of Section 15, Part 2 of DAR. Overrun costs should be included with Operating Costs. (Lines 03 and 04 above).

Line 12 Interest Expense: The cost of borrowings and other financial expense paid for the use of lenders' money; the amount reported should not be net of interest income. An allocation of properly allocable interest expense from the corporate/higher organizational level office should be assigned to the segment. If the respondent's corporate office assigns interest expense to segments, the established allocation base can be used. If not, the allocation should be based on net asset values; i.e., net working capital plus net book value of tangible fixed assets. At the segment level, interest can be allocated in the same manner as allowable G and A expenses.

Line 13 IR&D/B&P Over Ceiling: The portion of independent research and development and bid and proposal costs incurred over the negotiated ceiling amounts. Allocations to the segment, if appropriate, and to DoD and other work can be made in the same manner as allowable IR&D/B&P costs; i.e. in accordance with CAS 420.

Line 14 Specify _____: Insert the type/category/account nomenclature, etc., and the related allocable amount, that accounted for the largest amount of costs that were disallowed during the year (other than interest and IR&D/B&P expense).

Line 15 All Other: All other unallowable contract costs, including unallowable state and local income taxes and any allowances for estimated disallowances related to overhead rate proposals for fiscal years not yet negotiated. For years 1975-1980 (Schedule 1c) include all unallowable costs, except interest, under this caption.

Line 16 Total Unallowable Costs: Total of lines 12 through 15 above.

Line 17 Profit: Line 10 minus line 16.

Line 18 CAS 414 Cost of Money: The amount of inputed cost of money that was eligible for assignment to DoD contracts/subcontracts.

Line 19 Total Imputed COM: DoD's share of the total cost of money for the accounting period, as reflected on the Cost Accounting Standard Form CASB-CMF. This amount should be equal to the sum of lines 20 and 21, below.

Line 20 Amount Eligible: For fixed price contracts and subcontracts, report the amount of cost of money which was eligible for progress payments or contract costing. For cost type contracts and subcontracts, report cost of money billed.

Line 21 Amount Not Eligible: For those contracts (and subcontracts, if any) which provide that cost of money shall be disallowed, report the inputed amount which would have been eligible for progress payments, or which would have been billed, if cost of money were allowable.

2. Schedule II - Selected Balance Sheet Items

The following data element descriptions pertain to Schedule II - Selected Balance Sheet Items. Each data element is identified by a line number on which the data element appears. Where average asset values are requested they should be calculated by adding the beginning balance to the ending balance and dividing the sum by two (2).

Line 01 Accounts Receivable (Gross): The average dollar value of net accounts receivable related to the segment's operations. This information should be available by customer, i.e., DoD, Other U.S. Government and Commercial whether the accounts are administered at the segment or the corporate office.

Line 02 Billed: The amount of accounts receivable actually billed to customers.

Line 03 Unbilled: Where applicable, the gross amount (see line 08 below) of unbilled or accrued accounts receivable, recorded under long-term contracts accounted for on the percentage of completion basis. Amounts should be reported on this line only when these costs are removed from work in process inventory.

Line 04 Inventories (Gross): The average dollar value of inventories related to the segment's operations. Work in Process contract inventories should be available by customer. Common inventories can be

allocated based on manufacturing labor. Do not reduce the gross amounts by progress payments billed (see Line 08, below).

It is preferable to have G & A and IR&D/B&P expenses included in inventory in order that amounts reported correspond with progress and advance payments requested on line 07 below. If the respondent's practice is not to inventory such costs, and a reasonable estimate of the costs can be made, and included with the book inventory amounts, please provide the amount of the estimate and a brief description of how it was derived. If a reasonable estimate cannot be made please indicate that the amounts are net of G & A, IR&D/B&P, etc.

Line 05 Common: The average dollar value of raw materials or other common inventories that have not been charged to contracts.

Line 06 Contracts: The average dollar value of inventories related to contracts in process. Also include any unbilled costs incurred under cost reimbursable contracts.

Line 07 Total Accounts Receivable and Inventory (Gross): Total of lines 02, 03, 05 and 06.

Line 08 Progress and Advance Payments: Average amount of progress payments related to unbilled or accrued accounts receivable (Line 03) and inventories (Lines 05 and 06); also include any advance payments received. These amounts should be available by customer.

Line 09 Net Accounts Receivable and Inventory: Line 07 minus line 08.

Line 10 Other Current Assets: Average amount of all other current assets recorded on the books of the segment and/or allocable assets on the books of a higher organization that are germane to the segment's primary profit making activities, e.g., prepaid expenses. Allocation of those assets, to both segments and customer category, should be based on the method that best reflects causal/beneficial relationships. If amounts are significant, provide brief descriptions of the assets involved, the related amounts and the allocation methods employed.

Line 11 Total Current Assets: Net Accounts Receivable and Inventory (Line 09), plus Other Current Assets (Line 10).

Line 12 Tangible Fixed Assets: All tangible fixed assets which are included in the investment base for computation of CAS 414, Cost of Money As An Element of the Cost of Facilities Capital. Allocations of assets held at higher organizational levels, as well as "shared" assets at service centers (company aircraft, wind tunnels, etc.) should be made. If a computer service center meets the definition of a segment and transfers to other segments are made at prices based on "arms-length" transactions, its tangible assets should not be allocated. However, if it is not considered a segment and transfers are made at cost, its assets should be allocated.

The gross and net book values of assets at the corporate office and at service centers should be allocated to benefitting segments in the same proportion that actual costs were allocated. This information is available on the relevant FORM CASB-CMF. At the segment level, the allocated costs should be apportioned between DoD, Other U.S. Government, and Commercial work in the same ratios as segment G & A expenses. Book values of assets assigned to segment indirect expense pools should be allocated in the same proportion that the expense pools were allocated to contracts, using the established allocation bases for the expense pools, e.g., direct labor dollars, direct labor hours, machine hours.

Line 13 Equipment: Includes machinery, furniture and fixtures, automobiles, capitalized tools and all other capital assets not classified as buildings and land.

Lines 14-16 Contractor Owned: The average gross and net book values of contractor owned equipment. Amounts reported should include equipment leased under capital leases.

Line 17 Depreciation: Total depreciation expenses for the fiscal year related to equipment.

Line 18 Capital Expenditures: The total amount expended for capital equipment during the year.

Lines 19-21 Government Owned: The gross value and an estimate of what the net book value of government owned equipment would be if it were

contractor owned. Special tooling and test equipment that has been charged to contracts should not be included. The estimated amount should be computed by applying normal depreciation methods to the gross values of government furnished equipment. Pertinent data requisite to computing the estimated net book values should be available from contractor records maintained to meet the requirements of DAR Appendices B & C 306, Records of Plant Equipment. Data on this element need not be furnished for years before 1983.

Line 22 Buildings: Depreciable real estate and related depreciable improvements, including leasehold improvements that are subject to amortization.

Lines 23-25 Contractor Owned: The average gross and net book values of contractor owned buildings. Amounts reported should include buildings leased under capital leases.

Line 26 Depreciation: Total depreciation expense for the fiscal year related to buildings.

Line 27 Capital Expenditures: The total amount expended for buildings and related depreciable improvements during the year.

Lines 28-30 Government Owned: Value on the same basis as Government owned plant equipment. The acquisition value of the buildings should be available from contractor records maintained to comply with DAR

Appendicies B & C 307, Records of Real Property. Data on this element need not be provided for years before 1983.

Line 31 Land and Land Improvements: Costs incurred to secure title to a site acquired for operational purposes. Also includes the capitalized costs of any land improvements.

Lines 32-34 Contractor Owned: The average book value of land, plus the gross and net book value of any depreciable land improvements.

Line 35 Depreciation: Total depreciation expense for the fiscal year related to land improvements.

Line 36 Capital Expenditures: The total amount expended for land and/or land improvements during the year.

Line 37 Government Owned: The acquisition value of land should be available from contractor records. Data on this element need not be provided for years before 1983.

Line 38 Tangible Fixed Assets - Construction in Progress:
Average account balances of all construction in progress accounts for the fiscal year.

Line 39 Total Contractor Owned Gross Tangible Fixed Assets:
Segregate the gross values of the total amounts reported under contractor owned equipment Line 15, contractor owned buildings Line 24 and contractor

owned land, Line 33 and construction in progress, line 38 to show the gross book value of total assets located at the segment, and the total allocated book values. Data on these elements need not be provided for years before 1981.

Lines 43-45 Intangible Assets: The gross and net book values of intangible assets that are included in the investment base for computation of CAS 414 Cost of Money.

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DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE IA - SELECTED INCOME STATEMENT ITEMS
FOR USE IN REPORTING 1983 DATA

CORPORATION # _____
SEGMENT # _____
PRODUCT TYPE 1 CODE _____
% SEGMENT SALES _____
PRODUCT TYPE 2 CODE _____
% SEGMENT SALES _____
NO. OF EMPLOYEES _____

DOD

(IN MILLIONS OF DOLLARS) LINE #	COST TYPE		FIXED PRICE			TOTAL DOD G	OTHER U.S. GOV'T H	COMMERCIAL I	TOTAL SEGMENT J	LINE FOOTNOTE K
	PRIME A	SUBCONTRACT B	FMS C	PRIME D	SUBCONTRACT E	FMS F				
01 SALES	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 01
02 OPERATING COSTS:	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 02
03 GENERATED IN HOUSE	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 03
04 PURCH DIRECT MATT'L AND SUBCONT.	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 04
05 TOTAL OPERATING COSTS	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 05
06 OTHER COSTS:	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 06
07 STATE AND LOCAL INCOME TAXES	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 07
08 OTHER EXPENSE (INCOME)	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 08
09 TOTAL OTHER COSTS	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 09
10 SALES LESS ALLOWABLE COSTS	_____	_____	_____	_____	_____	_____	_____	_____	_____	11 10

CORPORATION #
SEGMENT #

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE IA - SELECTED INCOME STATEMENT ITEMS
FOR USE IN REPORTING 1983 DATA

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(IN MILLIONS OF DOLLARS) LINE #	COST TYPE		FIXED PRICE		TOTAL DOD G	OTHER U.S. GOV'T H	COMMERCIAL I	TOTAL SEGMENT J	FOOTNOTE K	LINE #
	PRIME A	SUBCONTRACT B	PRIME D	SUBCONTRACT E						
11 UNALLOWABLE COSTS:										
12 INTEREST										
13 IRAD/IMP OVER CEILING										
14 SPECIFY _____										
15 ALL OTHER										
16 TOTAL UNALLOWABLE COSTS										
17 PROFIT										
18 CAS 414 COST OF MONEY (MEMO ENTRY):										
19 TOTAL IMPUTED COM										
20 AMOUNT ELIGIBLE										
21 AMOUNT NOT ELIGIBLE										

CORPORATION #
SEGMENT #
PRODUCT TYPE 1 CODE
% SEGMENT SALES
PRODUCT TYPE 2 CODE
% SEGMENT SALES
FISCAL YEAR
NUMBER OF EMPLOYEES

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE IB - SELECTED INCOME STATEMENT ITEMS
FOR USE IN REPORTING 1981 AND 1982 DATA

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DOD

(IN MILLIONS OF DOLLARS) LINE #	COST TYPE		FIXED PRICE			TOTAL DOD		OTHER U.S. GOV'T		COMMERCIAL		TOTAL SEGMENT		LINE	
	PRIME A	SUBCONTRACT B	FMS C	PRIME D	SUBCONTRACT E	FMS F	G	U.S. GOV'T H	I	J	K	L	M	FOOTNOTE #	N
01 SALES															01
05 TOTAL OPERATING COSTS															05
06 OTHER COSTS:															06
07 STATE AND LOCAL INCOME TAXES															07
08 OTHER EXPENSE (INCOME)															08
09 TOTAL OTHER COSTS															09
10 SALES LESS ALLOWABLE COSTS															10

CORPORATION /	SEGMENT /
---------------	-----------

**DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE IB — SELECTED INCOME STATEMENT ITEMS
FOR USE IN REPORTING 1981 AND 1982 DATA**

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CORPORATION # _____
 SEGMENT # _____
 PRODUCT TYPE 1 CODE _____
 % SEGMENT SALES _____
 PRODUCT TYPE 2 CODE _____
 % SEGMENT SALES _____
 FISCAL YEAR _____

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE IC - SELECTED INCOME STATEMENT ITEMS
FOR USE IN REPORTING 1975-1990 DATA

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(IN MILLIONS OF DOLLARS) LINE #	TOTAL				TOTAL SEGMENT	FOOTNOTE	LINE #
	TOTAL DOD G	OTHER U.S. GOV'T H	COMMERCIAL I				
01 SALES	_____	_____	_____	_____	_____	□	01
05 TOTAL OPERATING COSTS	_____	_____	_____	_____	_____	□	05
09 TOTAL OTHER COSTS	_____	_____	_____	_____	_____	□	09
10 SALES LESS ALLOWABLE COSTS	_____	_____	_____	_____	_____	□	10
11 UNALLOWABLE COSTS:	_____	_____	_____	_____	_____	()	11
12 INTEREST	_____	_____	_____	_____	_____	()	12
15 ALL OTHER	_____	_____	_____	_____	_____	()	15
16 TOTAL UNALLOWABLE COSTS	_____	_____	_____	_____	_____	()	16
17 PROFIT	_____	_____	_____	_____	_____	()	17

**DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE II - SELECTED BALANCE SHEET ITEMS
FOR USE IN REPORTING 1975 - 1983 DATA**

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CORPORATION # _____
SEGMENT # _____
PRODUCT TYPE 1 CODE _____
% SEGMENT SALES _____
PRODUCT TYPE 2 CODE _____
% SEGMENT SALES _____
FISCAL YEAR _____

(IN MILLIONS OF DOLLARS)

LINE #	TOTAL DOD A	OTHER U.S. GOV'T B	COMMERCIAL C	TOTAL SEGMENT D	FOOTNOTE #	LINE #
01	ACTS RECEIVABLE (GROSS):					01
02	BILLED					02
03	UNBILLED					03
04	INVENTORIES (GROSS):					04
05	COMMON					05
06	CONTRACTS					06
07	TOTAL ACTS RECEIVABLE AND INVENTORY (GROSS)					07
08	LESS: PROGRESS PAYMENTS AND ADVANCES					08
09	NET ACTS RECEIVABLE AND INVENTORY					09
10	OTHER CURRENT ASSETS					10
11	TOTAL CURRENT ASSETS					11
12	TANGIBLE FIXED ASSETS:					12
13	EQUIPMENT:					13
14	CONTRACTOR OWNED:					14
15	GROSS BOOK VALUE					15
16	NET BOOK VALUE					16
17	DEPRECIATION					17
18	CAPITAL EXPENDITURES					18
19	GOVERNMENT OWNED (1981 ONLY):					19
20	GROSS BOOK VALUE					20

CORPORATION #
SEGMENT #

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE II - SELECTED BALANCE SHEET ITEMS
FOR USE IN REPORTING 1975 - 1983 DATA

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(IN MILLIONS OF DOLLARS)

LINE #	TOTAL DOD A	OTHER U.S. GOV'T B	COMMERCIAL C	TOTAL SEGMENT D	FOOTNOTE #	LINE #
21						21
22						22
23						23
24						24
25						25
26						26
27						27
28						28
29						29
30						30
31						31
32						32
33						33
34						34
35						35
36						36
37						37
38						38
39						39
40						40

CORPORATION # _____
SEGMENT # _____

DEPARTMENT OF DEFENSE
DEFENSE FINANCIAL AND INVESTMENT REVIEW (DFAIR)
SCHEDULE II - SELECTED BALANCE SHEET ITEMS
FOR USE IN REPORTING 1975 - 1983 DATA

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(IN MILLIONS OF DOLLARS)

LINE #	TOTAL DOD A	OTHER U.S. GOV'T B	COMMERCIAL C	TOTAL SEGMENT D	FOOTNOTE #	LINE #
41	_____	_____	_____	_____	<input type="checkbox"/>	41
42	_____	_____	_____	_____	<input type="checkbox"/>	42
43	_____	_____	_____	_____	<input type="checkbox"/>	43
44	_____	_____	_____	_____	<input type="checkbox"/>	44
45	_____	_____	_____	_____	<input type="checkbox"/>	45

41 ALLOCATED (INTO SEGMENT)

42 TOTAL (EQUALS LINE 39)

43 INTANGIBLE ASSETS:

44 GROSS BOOK VALUE

45 NET BOOK VALUE

ATTACHMENT I

Defense Financial and Investment Review
List of Applicable Product Types

The data collection form for submission of segment financial data applicable to DoD work calls for identification of the major product or products produced at the segment. To facilitate consolidation of the data collected, the following product codes should be used:

- 1- Aircraft and Aircraft Engines - The manufacture or assembly of aircraft, aircraft engines, aircraft accessories, and components.
- 2- Missiles and Space Systems - The manufacture or assembly of missiles, electronic equipment for missiles, and ground support and launch equipment.
- 3- Ships - The construction, repair, or modification of floating vessels.
- 4- Vehicles - The manufacture or assembly of combat and non-combat vehicles such as tanks, trucks, trailers, and related components and accessories.
- 5- Weapons - The manufacture of weapons such as guns, grenade launchers, and torpedo tubes.

- 6- Ammunition - The manufacture of such items as rockets, bombs, mines, ammunitions parts, rocket fuels, and motars.
- 7- Electronics - The manufacture and assembly of such items as radios, fire control systems, radar, navigational aids, and related components and accessories.
- 8- Other Equipment - The manufacture or assembly of equipment not considered to fit one of the above product codes. When this code is used, briefly describe the product or products produced.
- 9- Services - Effort not directly associated with the manufacture, assembly, or modification of hardware.

ATTACHMENT II

Active Government Owned Contractor Operated (GOCO) Facilities

Hawthorne Army Ammunition Plant (AAP)
Hawthorne, Nevada

Holston AAP
Kingsport, Tennessee

Indiana AAP
Charlestown, Indiana

Iowa AAP
Middletown, Iowa

Kansas AAP
Parsons, Kansas

Lake City AAP
Independence, Missouri

Lone Star AAP
Texarkana, Texas

Longhorn AAP
Marshall, Texas

Louisiana AAP
Shreveport, Louisiana

Milan AAP
Milan, Tennessee

Mississippi AAP
Picayune, Mississippi

Radford APP
Radford, Virginia

Scranton AAP
Scranton, Pennsylvania

ATTACHMENT III

RECOMMENDED CPA REVIEW PROGRAM

The independent CPA's participation in the Department of Defense (DOD) 1984 study of defense contractor profitability, financing and capital investment decision is critical to the study's success. The CPA's role is two fold. One, to review survey forms completed by the contractor based on the enclosed review procedures. Two, to prepare a letter summarizing the results of this review. A prototype letter is enclosed. The CPA letter and contractor survey forms will be sent to Touche Ross & Co. to perform the data analysis required.

The extent that the CPA can perform the required review procedures depends on several factors:

- Knowledge of the contractor's accounting and financial reporting practices;
- Changes in the contractor's business activities; and
- Information that may lead the CPA to question reported data.

Accordingly, the CPA should expand or modify the review procedures as necessary.

If during the review, the CPA believes that reported information does not conform with the instructions for completing the forms, the CPA should attempt to resolve differences with the contractor's staff responsible for form preparation. Any outstanding differences should be disclosed and the expected impacts identified in the CPA's letter.

1. General Procedures for Understanding Reporting Requirements

- a) Meet with contractor staff to discuss the study and CPA review requirements.
- b) Review the procedures used by the contractor to prepare the forms. It is intended that the contractor employ the same accounting principles for completing the forms as for external financial reporting. Exceptions should be disclosed in footnotes to the forms. As some sections of the forms require that estimates and allocations be made, it may be more appropriate for the contractor to use the same procedures it employs in its internal management reporting system. The methods of allocating and estimating must be in accordance with the instructions for completing the forms, and must also be reasonable and logical in light of the contractor's business environment and accounting systems.

- c) Ensure that the contractor has provided the required information for all profit centers providing goods and services to DOD by reviewing the analyses and schedules prepared to support reported values.

2. Review of Schedules IA, IB, and IC - Selected Income Statement Items Line 01 - Sales

- a) Inquire about the basis of sales allocation by contract type. Check the consistency of application for each user and profit center reported. Ascertain that the method used is appropriate in view of the contractor's business environment and accounting systems and consistent with external financial reporting.
- b) Compare the amounts shown on the forms with those for the same category for the preceding year and where practical, with the budget for the profit center or to related general ledger accounts and other such supporting documentation. Obtain explanations for significant fluctuations.
- c) Review the mathematical accuracy of the forms and related analyses and schedules.
- d) Agree total sales presented in the forms with the profit center's financial statements.
- e) Inquire about the consistency of procedures for sales cut-offs.
- f) Determine the effect, on the consistency of the data, of significant changes in accounting principles or in the method of applying such principles. Sales, however, should not be restated.

Line 02 - 04 Operating Costs

- a) Ensure that reported operating costs are in compliance with instructions.
- b) Inquire about the methods used to allocate operating costs to profit centers and contract type. Check the consistency of application for each year and contract type. Ascertain that the method used is appropriate, considering the nature of the contractor's business and accounting systems.
- c) Test the mathematical accuracy of the forms and any related analysis schedules. Compare amounts shown therein with prior year budgets and general ledger account balances and such other supporting documentation as considered necessary. Investigate significant differences.

- a) Determine the effect, on the consistency of the data presented, of significant changes in accounting principles or in the method of applying such principles. Costs, however, should not be restated.

Line 06 - 09 Other Costs

- a) Ensure that reported "Other Costs" are in compliance with instructions.

Line 10 - Sales Less Allowable Costs

- a) Determine the mathematical accuracy of the amounts presented on the schedules

Line 11 - 16 - Unallowable Costs

- a) Verify conformance with schedule instructions on interest expense allocations. Particular attention must be given to the allocation of higher organizational level interest expense.
- b) With an understanding of the contractor operations, examine unallowable expense items and determine if all unallowable expenses have been accounted for and properly allocated.
- c) Determine that all amounts in excess of negotiated ceiling amounts for Bid and Proposal/Independent Research and Development Costs are included.
- d) Review mathematical accuracy of the calculations on all workpapers.

Line 17 - Profit

- a) Determine the mathematical accuracy of the amounts presented on the schedules.

Line 18 - 21 CAS 414 Cost of Money

- a) Ensure that cost of money expenses are reported in compliance with Schedule I instructions.
- b) Review mathematical accuracy of values provided in line 19.

3. Review of Schedule II - Selected Balance Sheet Items

Lines 01 - 03 Accounts Receivable

- a) Identify methods for allocating accounts receivable to profit centers and contract categories.

Determine that the method used is appropriate in view of the contractor's business environment and accounting systems are consistent with external financial reporting.

- b) Review reported billed and unbilled accounts receivable values to ensure compliance with schedule instructions.
- c) Compare amount shown with those for preceding periods. Obtain explanations for significant fluctuations.
- d) Review mathematical accuracy of the forms and related analyses and schedules.
- e) Review estimates used for bad debt and other write-offs.
- f) Determine the effect, on consistency of the reported data, or significant changes in accounting principles or the application of those accounting principles.

Lines 04 - 06 Inventories

- a) Identify methods for allocating inventory accounts to segments and contract categories. Determine that the method used is appropriate in view of the contractor's business environment and accounting systems and consistent with external financial reporting.
- b) Compare amounts shown with preceding periods and relate to amounts reported in the contractors financial statements. Obtain explanations for significant fluctuations.
- c) Review mathematical accuracy of the schedules and any provided attachments.
- d) Determine the effect, on consistency of reported data, or significant changes in accounting principles or the application of accounting principles.

Line 10 Other Current Assets

- a) Review the nature of allocation methods used for working capital items other than Accounts Receivable and Inventories. (NOTE: Cash should not be considered a component of other current assets).

- b) Determine that (a) above is in conformance with Schedule II instructions.
- c) Review mathematical accuracy of the schedule.
- d) Compare values provided on the schedules to amounts reported in the contractor's financial statements. Obtain explanations for significant fluctuations.

Line 12 -39 Tangible Fixed Assets

The following procedures should be applied to all tangible fixed asset data elements presented:

- a) Inquire about the methods used to value and allocate the components of facilities capital among government and commercial customers. Ascertain that the methods are in accordance with the definitional requirements of the schedules and consistently applied. Determine that the methods are reasonable in view of the contractor's business environment and financial reporting systems.
- b) Where possible, agree the values presented on the forms to the profit center's general ledger or financial statements. For elements requiring allocation, review supporting documentation to the extent appropriate.
- c) Compare the value data elements shown on the schedules with those for the prior fiscal year-end. Obtain explanations for significant fluctuations.
- d) Review calculations used to develop values for government-owned asset data elements. Check the reasonableness of estimates of accumulated depreciation.
- e) Inquire about the methods used to allocate depreciation expense to profit centers and between total U.S. Government and commercial customer categories. Ascertain that these methods are consistent with the treatment of the other data elements presented requiring allocation. Determine that the methods are reasonable in light of the existing business environment and financial reporting systems.
- f) Review analyses, schedules and related supporting documentation.
- g) Compare Government and commercial depreciation expense totals for the prior fiscal year. Obtain explanations of significant fluctuations.

ATTACHMENT IV

RECOMMENDED CPA SURVEY FORM REVIEW LETTER

Corporation Number XXX

We have reviewed the data collection forms prepared by Corporation XXX for its segments (11st segment) providing goods and services to Department of Defense. This review was for the period MM DD, 19XX to MM DD, 19XX and was completed to assist in validating the data used by Touche Ross & Co. as the basis for the 1984 study of contractor profitability, financing, and capital investment. The specific review procedures we followed are outlined in the attached "CPA Review Program". (Explain any other procedures or reviews completed).

Because the review referred to above does not constitute an examination in accordance with generally accepted auditing standards, we express no opinion on the reported data either taken as a whole, or with respect to any specific item, to which the procedures relate. Had we performed additional procedures or had we made an examination of the data collection forms in accordance with generally accepted auditing standards other matters might have come to our attention that would have been significant and our conclusions described herein might have been different. However, based on the procedures we have applied, we have no information that would cause us to believe that any material adjustments are required to the information presented in the accompanying forms (any proposed adjustments should be disclosed).

It is understood that this letter is written solely for the information of the corporation and the certified public accounting firm of Touche Ross & Co. It is intended to be used by Touche Ross & Co. only for the purpose of accumulating data for the U.S. Department of Defense's 1984 Study. It is not to be referred to or distributed outside your corporation for any other purpose.

END

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