

**VOLUME 6B, CHAPTER 5: “STATEMENT OF NET COST”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (\*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated May 2012 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
All	Updated the chapter to comply with current administrative instructions.	Revision
050301.D.1.b	Added reference for additional guidance on inter-entity costs.	Addition
050301.E	Added language on Statement of Federal Financial Accounting Standards 33 as it pertains to instructions for completing the Statement of Net Cost.	Addition
050302.C.2	Clarified instructions for deducting earned revenue from the cost of outputs or outcomes.	Addition

**Table of Contents**

0501 GENERAL ..... 3

    050101. Overview ..... 3

    050102. Purpose ..... 3

    050103. Authoritative Guidance ..... 3

0502 FORMATS FOR THE SNC..... 3

    050201. Format for the Working Version of the Consolidated SNC..... 3

    050202. Format for the Working Version of the Consolidating SNC ..... 3

    050203. Published SNC Format..... 4

0503 INSTRUCTIONS FOR THE PREPARATION OF THE SNC ..... 4

    \*050301. General Instructions ..... 4

    \*050302. Line Item Instructions ..... 7

0504 PROGRAM PRESENTATION ..... 9

    050401. DoD Agency-wide Program Presentation ..... 9

    050402. DoD Reporting Entities ..... 10

Figure 5-1. Statement of Net Cost ..... 11

Figure 5-2. Consolidating Statement of Net Cost..... 12

## CHAPTER 5

STATEMENT OF NET COST

## 0501 GENERAL

## 050101. Overview

The [Statement of Net Cost \(SNC\)](#) is designed to show the components of the net cost of the reporting entity's operations for the period. The net cost of operations is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities.

## 050102. Purpose

This chapter prescribes the policy for preparing the Department of Defense (DoD) SNC. Additionally, this chapter provides standard formats for the published and working versions of the SNC.

## 050103. Authoritative Guidance

The concept of exchange revenue [incorporated throughout this chapter](#) is described in the Statement of Federal Financial Accounting Standards ([SFFAS](#)) [7](#), “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting;” Office of Management and Budget (OMB), Circular [A-136](#), “Financial Reporting Requirements;” and Treasury Financial Manual, Volume 1, Part 2, [Chapter 4700](#), “Agency Reporting Requirements for the Financial Report of the United States Government.”

## 0502 FORMATS FOR THE SNC

## 050201. Format for the Working Version of the Consolidated SNC

The format presented in Figure 5-1 [will](#) be used for the consolidated statements. All versions of the statements and notes leading up to the final submission of the “published” version to the Defense Finance and Accounting Service (DFAS) [Financial Reporting](#) Audited Financial Statement [Directorate](#) are considered “working versions.” The working versions of all statements [will](#) include the line numbers as shown in Figure 5-1. All amounts [will](#) remain dollars and cents in the working versions of the statement and note schedules in order to improve communication among the preparers, the reviewers, and the auditors during the financial statements preparation process.

## 050202. Format for the Working Version of the Consolidating SNC

The format presented in Figure 5-2 [will](#) be used for the consolidating statement. All amounts [will](#) remain dollars and cents in the working versions of the statement. The working versions of this statement will also include the line numbers as shown in Figure 5-2. Consolidating statements are not required by OMB Circular A-136. However, they are useful for financial management and may be published in a reporting entity’s annual financial report.

## 050203. Published SNC Format

The final DoD published statements, including the SNC, and the notes to the principal statements **will** display dollars rounded to the nearest millions with one decimal point. All Component statements **will** display dollar amounts rounded to the nearest whole thousand on the final published principal statements and in the tables/schedules contained in the notes to the principal statements. Dollar amounts in note narratives will be reported with a maximum of three position integers and a single decimal value followed by an identifier, such as millions **or** billions (e.g. \$340.1 million, not \$340,100 thousand). The line numbers shown in Figure 5-1 and Figure 5-2 are for reference only and are not to be included in the final version.

## 0503 INSTRUCTIONS FOR THE PREPARATION OF THE SNC

## \*050301. General Instructions

A. Net Cost of Operations. All figures used on the SNC are pre-closing trial balances.

1. Pre-closing trial balances include end of period adjusting entries to recognize on an accrual basis, revenues and expenses, and the proper amounts for assets, liabilities, and net position amounts. They do not include closing entries, which reduce nominal accounts to zero. The Consolidating SNC is organized in a manner that allows users of the financial data to differentiate between costs and revenues resulting from both program and **non-program** operations and provides the framework for analysis of **metrics** and outcomes of the various DoD programs and activities.

2. Net program costs are the gross program costs incurred by the reporting entity, plus losses (gains) from actuarial assumption changes for military retirement or other postemployment benefits, less any exchange program revenue earned from its activities. **This amount represents the net cost of a sub-organization or entity funded by sources other than exchange revenues.** The gross cost of a program consists of the full cost of the outputs produced by that program, **as defined by SFFAS 4, “Managerial Cost Accounting Standards and Concepts,”** plus any nonproduction costs that are assignable to the program. Nonproduction costs are costs linked to events other than the production of goods and services. Note 18, “General Disclosures Related to the Statement of Net Cost,” is designed to provide additional detail on the composition of net cost.

B. Programs Reported. DoD has identified performance measures **in the Financial Improvement and Audit Readiness (FIAR) Guidance, Section 5.D.2.2, “Gross Costs.”** DoD **currently** does not accumulate costs for major programs based on performance measures, in part because financial processes and systems do not yet fully collect costs in line with these measures. DoD divides programs by the seven major appropriation groupings addressed in paragraph 050401. The DoD Consolidating SNC, shown in Figure 5-2, **will** be prepared by displaying financial data by program appropriation groupings **horizontally** and by the vertical presentation of net cost by sub-organizations.

C. Sub-Entity Programs

1. Preparers of the SNC decide the exact classification of sub-entities and major programs based on:

a. Metrics and outcomes described in the entity's strategic and performance plans, as required by the Government Performance and Results Act (GPRA), as amended by the GPR A Modernization Act of 2010 (GPRAMA);

b. Entity's budget structure;

c. Guidance for defining and structuring responsibility segments presented in SFFAS 4; and

d. Requirements of the GPRAMA.

2. When data is available at the program element level, reporting entities may provide information as a supplemental schedule in the note to the SNC or in "Other Information." The SNC and related supporting schedules must show the net cost of operations for the reporting entity as a whole and its sub-entities and program elements, as applicable. In the Consolidating SNC, DoD identifies Components by the reporting entities described in Chapter 1. The Components may further break out the Consolidating SNC and provide any additional supporting schedules in Note 18. Chapter 10 contains guidance for preparation of the notes.

D. Imputed Costs. SFFAS 4 requires reporting entities to measure and report the full costs of their outputs (products and services) in financial reports. SFFAS 4 defines the full cost of an output from a responsibility segment as the sum of the costs of resources consumed by the segment that directly or indirectly contributes to the output and the costs of identifiable supporting services provided by other responsibility segments (internal or external to the reporting entity). Imputed costs and financing sources included in the SNC must be identifiable to a specific trading partner. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services through either billing or other advice. Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity's output, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities generally should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

1. Inter-Entity Imputed Costs

a. Inter-entity imputed costs represent costs that are paid in total or in part by entities external to DoD. Costs displayed on the SNC include certain imputed costs as directed by OMB. All federal agencies are required to report imputed costs for the categories described in subparagraphs 050301.D.1.a.(1) through 050301.D.1.a.(3) to ensure

consistency in reporting across the Government. The recognition of [inter-entity](#) imputed costs includes the following three categories:

- (1) [Civilian](#) employee pension, post-retirement health, and life insurance benefits;
- (2) Other post-employment benefits for retired, terminated, and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act; and
- (3) Losses in litigation proceedings. [Interpretation of Federal Financial Accounting Standards 2: "Accounting for Treasury Judgment Fund Transactions: \[An Interpretation of SFFAS 4 and SFFAS 5\]\(#\),"](#) provides additional details for this cost category.

\* b. [SFFAS 30](#), "Inter-entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts," requires entities to report the full cost of services provided by other entities whether or not the providing entity is fully reimbursed. [Additional guidance on inter-entity costs is available in Federal Accounting Standards Advisory Board \(\[FASAB\]\(#\)\) \[Technical Release 8\]\(#\), "Clarification of Standards Relating to Inter-Entity Costs."](#) Intragovernmental full costs and earned revenues, and public costs and earned revenues will be disclosed in Note 22.

## 2. [Intra-Entity Imputed Costs](#)

a. [Intra-entity](#) imputed costs represent costs that are paid in total or in part by other entities within DoD. Costs displayed on the SNC include intra-entity imputed costs as required by [Interpretation of Federal Financial Accounting Standards 6: "Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4."](#) Imputed [intra-entity](#) cost is the unreimbursed portion of the full costs of goods and services received by the entity from a providing entity that is part of the same entity or larger reporting entity (i.e. other bureaus, components, or responsibility segments within the entity or larger reporting entity). An example of an [intra-entity](#) imputed cost would be a DoD tenant receiving rent-free business space from another DoD entity. Volume 4, Chapter 6 provides additional detail on intra-entity costs for real property. DoD reporting entities [should](#) report the following [intra-entity](#) imputed costs:

(1) [Imputed Costs for Military Pension Expense](#). DoD reporting entities [will](#) recognize an imputed cost that is equal to the reported employer entity pension expense for the accounting period, as computed using factors provided by the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R)), less any accounting period contributions by the Military Departments to the Military Retirement Fund. Administrative entity expenses are reported only in the Military Retirement Fund audited financial statements.

(2) [Imputed Costs for Military Health Benefits](#). DoD reporting entities [will](#) recognize imputed costs equal to the employer entity expense for the military health benefits that is attributable to the Military Department (as computed using factors provided

by the OUSD(P&R)) for the accounting period. The administrative entity for the military health benefits is the OUSD(P&R). The administrative entity's actual expenses are reported only in the Medicare Eligible Retiree Health Care Fund, [Defense Health Agency](#), and Other Defense Organizations - General Funds financial statements.

b. DoD management, in accordance with the full cost provision of SFFAS 4, determines how intragovernmental costs incurred within DoD will be assigned, allocated, or imputed for purposes of accounting for the full cost of a program and its output(s). As a result, recognition of [intra-entity](#) imputed costs is not limited to specific cost categories as in the case of inter-entity imputed costs.

\* E. [SFFAS 33](#). In Fiscal Year 2009, the FASAB released SFFAS 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires entities reporting liabilities for Federal civilian and military employee pensions, other retirement benefits, and other postemployment benefits, including veterans' compensation, to report changes in those liabilities that result from gains and losses due to changes in long-term assumptions as a separate line item on the SNC. [In general, Military Departments are not affected by this standard since they report imputed costs but not the liabilities.](#)

\*050302. Line Item Instructions

The Department of the Treasury provides a [United States Standard General Ledger](#) (USSGL) crosswalk detailing the accounts and attributes that are to be included in each line item of the SNC. DFAS ensures the Defense Departmental Reporting System, Audited Financial Statements is updated with all crosswalk changes made by the Department of the Treasury.

A. [Program Costs - Line 1](#). This line includes the full costs of each program's [outcome](#). It consists of both direct and indirect costs of the output and the costs of identifiable supporting services provided by other segments within the reporting entity and by other reporting entities. To the extent accounting systems and defined DoD business rules allow, the reporting entity [will](#) accumulate and assign costs using the costing methodology found in SFFAS 4. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. Costs related to the production of outputs [must](#) be reported separately from nonproduction costs that cannot be traced to the production of outputs. The costs of program outputs include costs of services provided by other entities whether or not the providing entity is fully reimbursed.

1. The cost of Stewardship Property, Plant, and Equipment (PP&E) will be recognized as a cost in the SNC in the period it is incurred reported separately from other nonproduction costs and disclosed in Note 18. This includes the cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use heritage assets, and the cost of acquiring stewardship land. The entity that received the funds reports these costs and separately discloses them in Note 18. Report heritage assets and stewardship land, in terms of physical units, in the [PP&E](#) note to the financial statements. See Chapter 10, section 1012. Additional information can also be obtained in [SFFAS 29](#), "Heritage Assets and Stewardship Land."

2. Reporting entities **will** consider differentiating other significant costs when, by doing so, the usefulness of the statements would be improved either because the amount of a particular cost is large or because of its special nature. Elements of other nonproduction costs are considered significant when the element represents 10 percent or more of the value of the line.

B. Gross Costs - Line 1.A. This line contains costs that arise from the purchase of goods or services. The effects of **intra-entity** business transactions are eliminated in the reporting entity's statements. See Chapter 13 for elimination reporting requirements.

C. Less: Earned Revenue - Line 1.B

1. This line contains exchange revenues that arise when a federal entity provides goods and services to the public or another government entity for a price. The full amount of exchange revenue is reported on the SNC or supplementary schedule regardless of whether the entity is permitted to retain the revenue in whole or in part. Any portion of exchange revenue of the entity that cannot be retained by the entity is reported as a transfer out on the Statement of Changes in Net Position (SCNP). **Interest collected on delinquent receivables and subsequently transferred to the General Fund of the U.S. Treasury is one example of the transfer out of exchange revenue.**

\* 2. **Earned revenue should be deducted from the full cost of outputs or outcomes to determine their net cost unless it is not practical or reasonably possible to do so. If that cannot be done, deduct earned revenue from the gross cost of programs to determine the net program costs. When that is not practical or reasonably possible, deduct earned revenue from the costs of sub-organizations to determine the sub-organizations' net cost of operations. As there are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to outputs, outcomes, programs, or sub-organizations, the attribution of earned revenue requires the exercise of managerial judgement. In exercising this judgement, it is important to provide users of the SNC with the ability to ascertain whether the exchange revenues are sufficient to cover the costs incurred to produce the goods and services involved.**

D. Losses/(Gains) from Actuarial Assumption Changes for Military Requirement Benefits – Line 2. This line contains gains and losses from changes in long-term assumptions used to measure military retirement benefits (i.e., Military Retirement Fund and Medicare-Eligible Retiree Health Care Fund). See SFFAS 33 for further guidance on gains and losses from long-term assumptions. **In general, Military Departments are not affected by this standard since they report imputed costs but not the liabilities.**

E. Net Program Expenses Including Assumption Changes - Line 3

F. Costs Not Assigned to Programs – Line 4

1. A reporting entity and its **sub-organizations** may incur:

a. High-level general management and administrative support costs that cannot be directly traced, assigned on a cause and effect basis, or reasonably allocated to segments and their outputs; and

b. Nonproduction costs that cannot be assigned to a particular program.

2. These costs are part of the entity and sub-organization costs and should be reported on the SNC as “Costs Not Assigned to Programs.” Exchange transactions resulting in the recognition of “Extraordinary” items not properly assignable to specific programs will be included in this line. Extraordinary items are costs or income as unusual in type or amount as to be accorded special treatment in the general ledger accounts. Disclose extraordinary items if they represent 10 percent or more of this line.

G. Less: Earned Revenue Not Attributable to Programs - Line 5. Earned revenue that is insignificant or cannot be attributed to particular outputs or programs is reported separately as a deduction in arriving at net cost of operations of the sub-organization or reporting entity as a whole.

H. Net Cost of Operations – Line 6. This line is the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. This amount represents the net cost of a sub-organization or entity that must be financed by sources other than exchange revenues. The financing sources required to fund the “Net Cost of Operations” are reported on the SCNP.

#### 0504 PROGRAM PRESENTATION

##### 050401. DoD Agency-wide Program Presentation

Report the program data from the SNC for the consolidated DoD financial statements by major appropriation grouping until financial processes and systems are upgraded. The seven appropriation groupings to be reported are:

- A. Military Retirement Benefits;
- B. Civil Works;
- C. Military Personnel;
- D. Operations, Readiness and Support;
- E. Procurement;
- F. Research, Development, Test, and Evaluation; and
- G. Family Housing and Military Construction.

## 050402. DoD Reporting Entities

Managers of the DoD reporting entities identified in Chapter 1 may report the program distribution of net costs by existing entity program units or by appropriation grouping as specified in paragraph 050401. If management chooses a program distribution other than by the appropriation group in paragraph 050401, a supplemental SNC by appropriation grouping must be provided. This supplemental schedule is required in order to prepare the consolidated DoD SNC.

Figure 5-1. Statement of Net Cost

<b>DEPARTMENT OF DEFENSE</b>		
[Agency]		
<b>STATEMENT OF NET COST</b>		
<b>FOR THE YEARS ENDED SEPTEMBER 30, 20(CY) AND 20(PY)</b>		
(Amounts in dollars and cents)	Current Year	Prior Year
<b>1. Program Costs:</b>		
A. Gross Costs		
Military Retirement Benefits	\$        \$\$\$	\$        \$\$\$
Civil Works	\$\$\$	\$\$\$
Military Personnel	\$\$\$	\$\$\$
Operations, Readiness & Support	\$\$\$	\$\$\$
Procurement	\$\$\$	\$\$\$
Research, Development, Test & Eval	\$\$\$	\$\$\$
Family Housing & Military Construction	\$\$\$	\$\$\$
	_____ (\$\$\$)	_____ (\$\$\$)
B. (Less: Earned Revenue)		
C. Net Costs before Losses/Gains from Actuarial Assumption Changes for Military Retirement Benefits	\$ _____ \$\$\$	\$ _____ \$\$\$
<b>2. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits</b>		
	_____ \$\$\$	_____ \$\$\$
<b>3. Net Program Expenses Including Assumption Changes</b>		
	\$ _____ \$\$\$	_____ \$\$\$
<b>4. Costs Not Assigned to Programs</b>		
	\$\$\$	\$\$\$
<b>5. (Less: Earned Revenue Not Attributable to Programs)</b>		
	_____ (\$\$\$)	_____ (\$\$\$)
<b>6. Net Cost of Operations</b>		
	\$ _____ \$\$\$	\$ _____ \$\$\$
The accompanying notes are an integral part of these financial statements.		

Figure 5-2. Consolidating Statement of Net Cost

<b>DEPARTMENT OF DEFENSE</b>										
<b>[REPORTING ENTITY]</b>										
<b>STATEMENT OF NET COST</b>										
<i>For the Years Ended September 30, 20(CY) and 20(PY)</i>										
	Subentity A	Subentity B	Subentity C	Combined Total	Elimination	20(CY) Consolidated	20(PY) Consolidated			
<b>1. Program Costs</b>										
Military Retirement Benefits										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Civil Works										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Military Personnel										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Operations, Readiness & Support										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Procurement										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Research, Development, Test & Evaluation										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
Family Housing & Military Construction										
A. Gross Costs	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
B. (Less: Earned Revenue)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
C. Net Cost before Losses/Gains from Actuarial	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
Assumption Changes for Military Retirement										
<b>2. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits</b>										
	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
<b>3. Net Program Expenses Including Assumption Changes</b>										
	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
<b>4. Costs Not Assigned to Programs:</b>										
5. (Less: Earned Revenue Not Attributable to Programs)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
<b>6. Net Cost of Operations</b>										
	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$

The accompanying notes are an integral part of these statements.