

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 * 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 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	This updated chapter supersedes the previously published version May 2009.	Updated
All	Reworded and reformatted chapter for clarity and ease of reading. Added electronic links.	Revision / Addition
050201	Revised the responsibility of the Audited Financial Statements with Department of Defense Audited Financial Statements Reporting and Anaysis Corporate Reporting and Analysis.	Revision
050301.A.	Incorporated Statement of Federal Financial Accounting Standards (SFFAS) No. 33 changes for losses (gains) from actuarial assumptions changes for military requirement or other postemployment benefits.	Added
050301.B. and 050401	Revised DoD Agency-Wide Program Presentation from nine appropriation groupings to seven.	Revised
050301.D.	Provided additional clarification from the Office of Management and Budget (OMB) Circular A-136 on interentity imputed costs.	Added
050302.A.1.	Clarified recognition of cost for Property, Plant, and Equipment (PP&E) be recognized in the month that it is incurred according to the OMB A-136.	Revised
050302.D.	Added Losses/Gains from Actuarial Assumption Change for Military Requirement Benefits (Line 2) to the Statement of Net Costs.	Added
050302.F.	Added Costs Not Assigned to Programs (Line 4) to the Statement of Net Costs.	Added

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Figure 5-1 and Figure 5-2	Revised figure to update appropriation groupings, include Losses/Gains from Actuarial Assumption Change for Military Requirement Benefits (Line 2) and Costs Not Assigned to Programs (Line 4).	Revised

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CHAPTER 5

STATEMENT OF NET COST

0501 OVERVIEW

050101. Purpose

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

050102. Scope

The 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. The concept of exchange revenue is described in the [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 7, Accounting for Revenue and Other Financing Source](#), guidance from 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, is incorporated throughout this chapter.

0502 FORMATS FOR THE STATEMENT OF NET COST (SNC)

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

The format presented in Figure 5-1 shall 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 [DoD Audited Financial Statement Reporting and Analysis Corporate Reporting Standards and Compliance](#) shall be considered a “working version.” The working versions of all statements shall include the line numbers as shown in Figure 5-1. All amounts shall 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 shall be used for the consolidating statement. All amounts shall remain dollars and cents in the working versions of the statement. The working version 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 shall display dollars rounded to the nearest millions with one decimal point. All Component statements shall 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, billions, etc. (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 STATEMENT OF NET COST

050301. General Instructions

* A. Net Cost of Operations. All figures used on the SNC are preclosing trial balances. Preclosing 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 nonprogram operations and provides the framework for analysis of outputs and outcomes of the various DoD programs and activities. 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. The gross cost of a program consists of the full cost of the outputs produced by that program 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 based on missions and outputs. DoD 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, shall be prepared by displaying financial data by program appropriation groupings horizontal and by the vertical presentation of net cost by suborganizations.

C. Subentity Programs

1. Preparers of the SNC decide the exact classification of subentities and major programs based on:

a. Missions and outputs described in the entity's strategic and performance plans.

- b. Entity's budget structure.
- c. Guidance for defining and structuring responsibility segments presented in [SFFAS No.4](#), Managerial Cost Accounting Concepts and Standards.
- d. Requirements of the Government Performance and Results Act, ([GPRA](#)).

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

* D. Imputed Costs. SFFAS No. 4 requires reporting entities to measure and report the full costs of their outputs (products and services) in financial reports. SFFAS No. 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 revenues 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 interentity 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. Interentity Imputed Costs

a. Interentity 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 below to ensure consistency in reporting across the Government. The recognition of interentity imputed costs includes the following three categories:

- (1) 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.

(3) Losses in litigation proceedings. Federal Accounting Standards Advisory Board ([FASAB Interpretation Number 2, Accounting for Treasury Judgment Fund Transactions](#)), provides additional details for this cost category.

b. [SFFAS No. 30, Interentity Cost Implementation Amending SFFAS No. 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.

2. Intraentity Imputed Costs

a. Intraentity imputed costs represent costs that are paid in total or in part by other entities within DoD. Costs displayed on the SNC include intraentity imputed costs as required by [FASAB Interpretation Number 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4](#). Imputed intraentity costs are 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 intraentity imputed cost would be a DoD tenant receiving rent-free business space from another DoD entity. DoD FMR Volume 4, Chapter 6, Property, Plant, and Equipment, provides additional detail on intraentity costs for real property. DoD reporting entities shall report the following intraentity imputed costs:

(1) Imputed Costs for Military Pension Expense. DoD reporting entities shall 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 shall 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, Services Medical Activity, TRICARE Management Activity and Other Defense Organizations - General Funds financial statements.

b. DoD management, in accordance with the full cost provision of SFFAS No. 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 intraentity imputed costs is not limited to specific cost categories as in the case of interentity imputed costs.

E. SFFAS No. 33. In FY 2010, the FASAB released SFFAS No. 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 (ORB), and other postemployment benefits (OPEB), 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.

050302. Line Item Instructions

The Department of the Treasury provides a crosswalk on their website, www.fms.treas.gov/ussgl, detailing the United States Standard General Ledger (USSGL) accounts and attributes that are to be included in each line item of the SNC. The Defense Finance and Accounting Service (DFAS) ensures the Defense Departmental Reporting System, Audited Financial Statements (DDRS AFS) 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 output. 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 shall accumulate and assign costs using the costing methodology found in SFFAS No. 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 shall 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 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 Property, Plant and Equipment note to the financial statements. See Chapter 10, Section 1012 of this volume of the DoD FMR. Additional information can also be obtained in SFFAS No. 29, Heritage Assets and Stewardship Land.

2. Reporting entities shall 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 intraentity business transactions are eliminated in

the reporting entity's statements. See Chapter 13 of this volume for elimination reporting requirements.

C. Less: Earned Revenues - Line 1.B. 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. An example of the transfer out of exchange revenue would result when interest on delinquent receivables is collected and transferred to the U.S. Treasury. See Chapter 13 of this volume for elimination reporting requirements.

1. Deduct earned revenue 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 suborganizations to determine the suborganizations' net cost of operations.

2. There are no precise guidelines for determining the degree to which earned revenue reasonably can be attributed to outputs, outcomes, programs, or suborganizations. The attribution of earned revenue requires the exercise of managerial judgment. In exercising this judgment, it is important to give readers of the SNC the ability to ascertain whether exchange revenues are sufficient to cover the costs incurred to produce the goods or 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 No. 33 for further guidance on gains and losses from long-term assumptions.

E. Net Program Expenses Including Assumption Changes - Line 3

1. A reporting entity and its suborganizations 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.

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

2. These costs are part of the entity and suborganization costs and should be reported on the Statement of Net Cost as "Costs Not Assigned to Programs." Exchange transactions resulting in the recognition of "Extraordinary" items not properly

assignable to specific programs shall be included in this line. Extraordinary items are costs or income so 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.

* F. Costs Not Assigned to Programs – Line 4

1. A reporting entity and its suborganizations 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.

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

2. These costs are part of the entity and suborganization costs and should be reported on the Statement of Net Cost as “Costs Not Assigned to Programs.” Exchange transactions resulting in the recognition of “Extraordinary” items not properly assignable to specific programs shall be included in this line. Extraordinary items are costs or income so 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.

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 suborganization 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 Statement of Changes in Net Position.

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
 - G. Family Housing and Military Construction
050402. DoD Reporting Entities

Managers of the DoD reporting entities identified in Chapter 1 of this volume 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

DEPARTMENT OF DEFENSE		
[Agency]		
STATEMENT OF NET COST		
FOR THE YEARS ENDED SEPTEMBER 30, 20(CY) AND 20(PY)		
(Amounts in dollars and cents)	Current Year	Prior Year
1. Program Costs:		
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	<u>\$ \$\$\$</u>	<u>\$ \$\$\$</u>
2. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits		
	_____ \$\$\$	_____ \$\$\$
3. Net Program Expenses Including Assumption Changes		
	<u>\$ \$\$\$</u>	<u>_____ \$\$\$</u>
4. Costs Not Assigned to Program		
	\$\$\$	\$\$\$
5. (Less: Earned Revenue Not Attributable to Programs)		
	_____ (\$\$\$)	_____ (\$\$\$)
6. Net Cost of Operations		
	<u>\$ \$\$\$</u>	<u>\$ \$\$\$</u>
The accompanying notes are an integral part of these financial statements.		

*Figure 5-1 Statement of Net Cost

*Figure 5-2 Consolidating Statement of Net Cost

DEPARTMENT OF DEFENSE [REPORTING ENTITY] STATEMENT OF NET COST For the Years Ended September 30, 20(CY) and 20(PY)												
	Subentity A	Subentity B	Subentity C	Combined Total	Elimination	20(CY) Consolidated	20(PY) Consolidated					
1. Program Costs												
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												
2. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
3. Net Program Expenses Including Assumption Changes	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$
4. Costs Not Assigned to Programs:												
5. (Less: Earned Revenue Not Attributable to Programs)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)		(\$\$\$)
6. Net Cost of Operations	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$	\$	\$\$\$

The accompanying notes are an integral part of these statements.

*Figure 5-2 Consolidating Statement of Net Cost