

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

Changes are identified in this table and also 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 **January 2020** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Removed figures and streamlined for improved readability.	Revision
All	Streamlined language to align with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.	Revision
2.2	Revised sentences to clarify the definition.	Revision

Table of Contents

VOLUME 6B, CHAPTER 5: “STATEMENT OF NET COST”	1
1.0 GENERAL.....	3
1.1 Overview	3
1.2 Purpose	3
1.3 Authoritative Guidance	3
*2.0 SNC PRESENTATION	3
2.1 Major Programs.....	3
*2.2 Components of SNC	4
*3.0 Line Item	5
3.1 Program Costs.	5
3.2 Net Cost of Operations.	6

CHAPTER 5

STATEMENT OF NET COST

1.0 GENERAL

1.1 Overview

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

1.2 Purpose

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

1.3 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, ([1 TFM 2-4700](#)) “Federal Entity Reporting Requirements for the Financial Report of the United States Government.” Annual updates to OMB Circular A-136 are on the [OMB](#) website.

*2.0 SNC PRESENTATION

According to OMB A-136, the SNC should present the net cost of operations by major programs. The federal entity should define the major program and the entity should group together the programs that are not deemed “major”.

2.1 Major Programs.

2.1.1. The DoD SNC presents major programs based on:

2.1.1.1. Metrics and outcomes described in the entity’s strategic and performance plans, as required by the Government Performance and Results Act of 1993 ([GPR](#)A), as amended by the GPR A Modernization Act of 2010 ([GPRAMA](#));

2.1.1.2. Entity’s budget structure;

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

2.1.1.4. Requirements of the GPRAMA.

2.1.2. When data is available at the program element level, [consolidating](#) 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 entity as a whole and its sub-entities and program elements, as applicable. In the [consolidated](#) SNC, DoD identifies Components by the entities described in Chapter 1. The Components may further break out the [consolidated](#) SNC and provide any additional supporting schedules in the notes to the financial statements.

*2.2 Components of SNC

2.2.1. [Net Program Costs](#). Net program costs are the gross program costs incurred by the [consolidating](#) 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. Refer to Chapter 10 for disclosure requirements in the notes to the financial statements.

2.2.2. [Imputed Costs](#). SFFAS 4 requires [consolidating](#) entities to measure and report the full costs of their outputs (products and services) in financial reports. 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. SFFAS 4 identifies inter-entity costs that are not fully reimbursed. See SFFAS 4 for additional information.

2.2.2.1. [Inter-Entity Imputed Costs](#). 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 gross program cost categories described in OMB Circular A-136 to ensure consistency in reporting across the Government. [SFFAS 55](#), “Amending Inter-entity Cost Provisions,” requires the recognition of significant inter-entity costs by business-type activities. Additional guidance on inter-entity costs is available in Federal Accounting Standards Advisory Board [Technical Release 19](#), “Rescission of Technical Release 8.” Disclose intragovernmental full costs and earned revenues, and public costs and earned revenues, in the notes to the financial statements.

2.2.2.2. [Intra-Entity Imputed Costs](#). 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 [SFFAS 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 entity (i.e. other bureaus, components, or responsibility segments within the entity or larger 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 19 provides additional detail on intra-entity costs. DoD [consolidating](#) entities should report the following intra-entity imputed costs:

2.2.2.2.1. Imputed Costs for Military Pension Expense. DoD consolidating 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 OUSD (Personnel and Readiness) (P&R), less any accounting period contributions by the Military Departments to the Military Retirement Fund. Report administrative entity expenses only in the Military Retirement Fund audited financial statements.

2.2.2.2.2. Imputed Costs for Military Health Benefits. DoD consolidating 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). DoD consolidating entities should report the administrative entity's actual expenses only in the Medicare-Eligible Retiree Health Care Fund, Defense Health Agency, and Other Defense Organizations-General Funds financial statements.

2.2.2.2.3. 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.

2.2.3. Gains or Losses. 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," requires entities reporting gains and losses associated with changes in long-term assumptions for civilian and military employee pensions, other retirement benefits, other postemployment benefits, including veterans' compensation as a separate line item on the SNC.

*3.0 Line Item

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

3.1 Program Costs.

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 entity and by other consolidating entities. To the extent accounting systems and defined DoD business rules allow, the consolidating entity will accumulate and assign costs using the costing methodology stated in SFFAS 4. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. Report costs related to the production of outputs 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 even if the costs are fully reimbursed.

3.1.1. Recognize the cost of Stewardship Property, Plant, and Equipment as a cost in the SNC in the period it is incurred, report separately from other nonproduction costs, and disclose in the notes to the financial statements. Refer to OMB Circular A-136 for additional information. The entity that received the funds reports these costs and separately discloses them in the notes to the financial statements. Refer to Volume 4, Chapter 28, for additional information on “heritage assets, multi-use heritage assets, and stewardship land” and [SFFAS 29](#), “Heritage Assets and Stewardship Land.”

3.1.2. Gross Costs. This line contains costs that arise from the purchase of goods or services. [The Gross Costs should include elimination of the effects of intra-entity and inter-entity business transactions in the consolidating entity’s statements.](#)

3.1.3. Earned Revenue. 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. Report the full amount of exchange revenue on the SNC or supplementary schedule regardless of whether the entity is permitted to retain the revenue in whole or in part. Earned revenue [must](#) 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. [it is not practical or reasonable to do so, DoD must deduct earned revenue from the gross cost of programs to determine the net program costs or deduct earned revenue from the costs of sub-organizations to determine the sub-organizations’ net cost of operations.](#) Refer to OMB Circular A-136 for additional [guidance](#) for assigning earned revenue to outputs, outcomes, programs, or sub-organizations.

3.1.4. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits. 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).

3.2 Net Cost of Operations.

This line is the gross cost incurred by the [consolidating](#) 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. [DoD must report the financing sources required to fund the “Net Cost of Operations” on the Statement of Changes in Net Position.](#)