

## Ch 10 - Analyzing Facilities Capital Cost of Money

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### **10.0 Chapter Introduction**

This chapter identifies points to consider as you develop your prenegotiation position on facilities capital cost of money.

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### **10.1 Recognizing Elements Affecting Facilities Capital Cost Of Money**

*Facilities Capital Cost of Money* ([FAR 31.205-10\(a\)](#), [App B, 9904.414-30](#), and [App B, 9904.417-50](#)).

Facilities capital cost of money is an imputed cost related to the cost of contractor capital committed to facilities. CAS 414, Cost of Money as an Element of the Cost of Facilities Capital, provides detailed guidance on calculating the amount of facilities capital cost of money due under a specific contract. Under CAS 414, a business-unit's facilities capital cost of money is calculated by multiplying the net book value of the business-unit's facilities investment by a cost of money rate based on the interest rates specified semi-annually by the Secretary of the Treasury under Public Law 92-41. The business-unit's facilities capital cost of money is then broken down by overhead pool and allocated to specific contracts using the same allocation base used to allocate the indirect costs in the overhead pool.

Facilities capital cost of money is determined without regard to whether the source is owner's equity or borrowed capital. It is not a form of interest on borrowing by the firm.

Facilities capital cost of money allowed under CAS 414 does not duplicate or replace costs allowed under CAS 417, Cost of Money as an Element of the Cost of Capital Assets Under Construction. CAS 417 establishes criteria for the measurement of the cost of money attributable to capital assets under construction, fabrication, or development as an element of the cost of those assets. CAS 417 costs are only accumulated while assets are under construction, the costs are charged as part of contract depreciation over the depreciable life of the asset. As a result, analysis of CAS 417 costs becomes a part of the complex process of asset valuation and depreciation. If you have questions regarding CAS 417 costs, contact the cognizant Government auditor.

*Purpose of Facilities Capital Cost of Money* ([FAR App B, 9904.414-20](#)). As contractor management considers investment opportunities, they must consider the cost of capital required to make each investment and the potential return from that investment. To attract investment, the prospective return on investment generally must be higher than the cost of capital required to make the investment. Thus, the cost of capital is a real cost that effects investment decisions. Unfortunately, the cost of capital is not the same for all sources (e.g., owner's equity and long-term loans), all firms, or all periods of time.

The purpose of facilities capital cost of money criteria is to improve contractor cost measurement by providing for allocation of the cost of contractor investment in facilities to negotiated contracts. To assure uniform consideration, the criteria require use of the current Treasury-determined cost of money rate for all firms and all facility investments.

*Facilities Capital Cost of Money Allowability* ([FAR 31.205-10\(a\)](#) and [31.205-52](#)). Whether or not the contract is otherwise subject to Cost Accounting Standards, facilities capital cost of money is allowable when all of the following requirements are met:

- The contractor's capital investment is measured, allocated to contracts, and costed in accordance with CAS 414.
- The contractor maintains adequate records to demonstrate compliance with the requirements of CAS 414.

- The estimated facilities capital cost of money is specifically identified or proposed in cost proposals relating to the contract under which the cost is to be claimed.
- The requirements in [FAR 31.205-52](#), Asset Valuations Resulting from Business Combinations, are not exceeded.

*Contractor Waiver of Facilities Capital Cost of Money* ([FAR 15.404-4\(c\)\(3\)](#), [15.408\(i\)](#), and [52.215-17](#)).

If the prospective contractor fails to identify or propose facilities capital cost of money in a proposal for a contract that will be subject to the FAR cost principles for contracts with commercial organizations, facilities capital cost of money will not be an allowable cost in any resulting contract. Under those circumstances, the contract must include the FAR clause, Waiver of Facilities Capital Cost of Money.

*Facilities Capital Cost of Money Cannot Be Used as a Profit Base* ([FAR 15.404-4\(c\)\(3\)](#) and [DFARS 215.404-71-4](#)).

FAR requires that you use your prenegotiation cost objective as the basis for calculating the prenegotiation objective for profit or fee. However, FAR also requires that you exclude any facilities cost of capital included in cost objectives before applying profit or fee factors.

Even though FAR excludes facilities capital cost of money from the basis for calculating profit or fee objectives, your agency may provide for using the facilities capital cost of money to estimate the contractor facilities capital employed on the contract. The profit or fee objective may then consider the estimated facilities capital employed.

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## **10.2 Identifying And Applying Facilities Capital Cost Of Money Factors**

This section presents procedures for calculating and applying facilities capital cost of money factors and for using the DD Form 1861 (available in [Adobe Acrobat \(PDF\) format](#)).

- 10.2.1 - [Calculating Contract Facilities Capital Cost Of Money](#)
- 10.2.2 - [Using The DD Form 1861](#)

**10.2.1 Calculating Contract Facilities Capital Cost Of Money**

*Developing Facilities Capital Cost of Money Rates ([FAR App B, 9904.414-60](#)). The contractor is responsible for proposing facilities capital cost of money factors using the Form CASB-CMF. Accordingly, any review or analysis of cost of money factor development should examine the procedures used by the contractor in each step involved in completing the Form CASB-CMF.*

FORM CASB-CMF		FACILITIES CAPITAL COST OF MONEY FACTORS COMPUTATION				
CONTRACTOR:			ADDRESS:			
BUSINESS UNIT:						
COST ACCOUNTING PERIOD:	1. APPLICABLE COST OF MONEY RATE <u>8</u> %	2. ACCUMULATION & DIRECT DISTRIBUTION OF N.B.V.	3. ALLOCATION OF UNDISTRIBUTED	4. TOTAL NET BOOK VALUE	5. COST OF MONEY FOR THE ACCOUNTING PERIOD	6. ALLOCATION BASIS THROUGH
BUSINESS UNIT FACILITIES CAPITAL	RECORDED	\$1,052,500	BASIS OF ALLOCATION	COLUMNS 2+3	COLUMNS 1x4	IN OF
	LEASED PROPERTY	\$90,000				
	CORPORATE OR GROUP	\$62,000				
	TOTAL	\$1,204,500				
	UNDISTRIBUTED	\$1,052,000				
	DISTRIBUTED	\$152,500				
OVERHEAD POOLS	MATERIAL	\$20,000	\$40,000	\$60,000	\$4,800	
	ENGINEERING	\$20,000	\$100,000	\$120,000	\$9,600	
	MANUFACTURING	\$112,500	\$850,000	\$962,500	\$77,000	

G&A EXPENSE POOLS	G&A EXPENSE	- \$0 -	\$62,000	\$62,000	\$4,960	\$4,960
TOTAL		\$152,500	\$1,052,000	\$1,204,500	\$96,360	\$96,360

For each accounting period, the factor-development process follows a 7-step procedure:

1. **Determine the appropriate cost of money rate.** The contractor must use the current cost of money rate as determined by the Secretary of the Treasury, under P.L. 92-40. The rate is published twice a year in the Federal Register. (Column 1)
2. **Accumulate net book value of business-unit facilities capital.** For each accounting period, this accumulation must include the net book value of facilities owned by the business unit, the capitalized value of facilities capital-lease items, and the business-unit's allocated share of corporate or group facilities. This figure will normally change from period to period. (Business Unit Facilities Capital -- Column 2)
3. **Allocate facilities capital net book value to indirect cost pools.** Business-unit facilities capital is assigned to accounts for allocation to contracts. These accounts will be related to the contractor's overhead pools. If depreciation for a building is part of the engineering overhead pool, the facilities capital would be assigned to a facilities capital pool identified as engineering overhead. (Column 2 and Column 3)
4. **Sum facilities capital net book value for each pool.** The facilities capital net book values assigned to each pool must be summed to determine the total pool value. (Column 2 + Column 3 = Column 4)
5. **Calculate the facilities capital cost of money for each pool.** To calculate the facilities capital cost of money for each pool, multiply each facilities capital pool by the current cost of money rate. (Column 4 x Column 1 = Column 5)
6. **Identify the appropriate allocation base for each facilities capital cost of money pool.** The allocation

- base used to allocate a facilities capital cost of money pool will be the same as the base used to allocate the related indirect cost pool. Depending on the method used to estimate costs, the base estimate will normally change from period to period. (Column 6)
7. **Calculate facility cost of money factors.** Divide each facilities capital cost of money pool by the appropriate allocation base. CAS 414 requires that the calculation be taken to five decimal places. (Column 5/Column 6 = Column 7)

*Government Facilities Cost of Capital Factor Analysis* ([FAR 15.402\(a\)](#), [15.404-2\(a\)](#), and [DFARS 230.7004-1](#)).

Because facilities capital cost of money factors affect contracts across the business unit, support from the cognizant auditor and administrative contracting officer (when one is assigned) can be particularly important to your analysis. When indirect cost rates are audited by cognizant Government auditors, facilities capital cost of money factors are typically audited at the same time. ACOs may negotiate forward pricing facilities capital cost of money factors at the same time that they negotiate forward pricing indirect cost rates. However, remember that the contracting officer still has ultimate responsibility for determining contract price reasonableness.

*Applying Factors to Appropriate Bases.* To be considered for facilities capital cost of money, the offeror must include it in the firm's cost proposal. The calculations are normally found at the end of the proposed cost breakdown, after profit. The table below demonstrates how facilities capital cost of money would be calculated for work performed during each contract accounting period. Note that each facilities capital cost of money factor is applied to the same base (cost element names in bold font) as the related indirect cost rate.

<b>Contract Price Position Including Facilities Capital Cost of Money</b>		
<b>Cost Element</b>	<b>Rate/Factor and Base</b>	<b>Cost</b>
<b>Direct Material</b>		\$90,000
Material Overhead	5.0% of Direct Material Cost	\$4,500
<b>Direct Engineering Labor</b>		\$74,000

Engineering Overhead	50.0% of Direct Engineering Labor Cost	\$37,000
<b>Direct Manufacturing Labor</b>		\$150,000
Manufacturing Overhead	215.0% of Direct Manufacturing Labor Cost	\$322,500
Other Direct Cost		\$22,000
<b>Total Manufacturing Cost</b>		\$700,000
G&A Expense	6.0% of Total Manufacturing Cost	\$42,000
Total Cost Less Cost of Money		\$742,000
Profit	20.0% of Total Manufacturing Cost	\$140,000
Total Price Less Cost of Money		\$882,000
Facilities Capital Cost of Money		
Material	.00500 x <b>Direct Material Cost</b>	\$450
Engineering	.01500 x <b>Direct Engineering Labor Cost</b>	\$1,110
Manufacturing	.11000 x <b>Direct Manufacturing Labor Cost</b>	\$16,500
G&A	.00124 x <b>Total Manufacturing Cost</b>	\$868
Total		\$18,928
Total Price		\$900,928

### 10.2.2 Using The DD Form 1861

*DD Form 1861 Uses ([DFARS 230.7001-1](#))*. The DoD has created the DD Form 1861, Contract Facilities Capital Cost of Money, to provide a uniform format for calculating and documenting the contract facilities capital cost of money and the contractor facilities capital employed on a contract. In the DoD, the contractor's facilities capital employed is used to measure contractor facilities investment for consideration in profit/fee analysis.

*Calculating Contract Facilities Capital Cost of Money*  
 ([DFARS 230.7001-2](#) and [NFS 1830.7001-1](#)).

If you are assigned to a DoD organization, use the DD Form 1861 (or an electronic version of the form) to calculate the contract facilities capital cost of money. If you are assigned to another agency, your agency may permit or direct you to use of the DD Form 1861.

The following figure demonstrates the use of a DD Form 1861 to document the facilities capital cost of money calculations from the example in the previous section.

CONTRACT FACILITIES CAPITAL COST OF MONEY		Form Approved OMB No. 0704-0267 Expires Mar 31, 1998	
Public reporting burden for this collection of information is estimated to average 10 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0267), Washington, DC 20503.			
PLEASE DO NOT RETURN YOUR COMPLETED FORM TO EITHER OF THESE ADDRESSES.			
RETURN COMPLETED FORM TO YOUR CONTRACTING OFFICIAL			
1. CONTRACTOR NAME		2. CONTRACTOR ADDRESS	
3. BUSINESS UNIT			
4. RFP/CONTRACT PIIN NUMBER		5. PERFORMANCE PERIOD	
6. DISTRIBUTION OF FACILITIES CAPITAL COST OF MONEY			
POOL	ALLOCATION BASE	FACILITIES CAPITAL COST OF MONEY	
		c.	
a.	b.	FACTOR	AMOUNT



Material	\$90,000	.00500	\$450
Engineering	\$74,000	.01500	\$1,110
Manufacturing	\$150,000	.11000	\$16,500
G&A	\$700,000	.00124	\$868
d. TOTAL			\$18,928
e. TREASURY RATE			%
f. FACILITIES CAPITAL EMPLOYED (TOTAL DIVIDED BY TREASURY RATE)			
7. DISTRIBUTION OF FACILITIES CAPITAL EMPLOYED			
		PERCENTAGE	AMOUNT
		a.	b.
LAND		%	
BUILDINGS		%	
EQUIPMENT		%	
FACILITIES CAPITAL EMPLOYED		100%	
DD Form 1861, APR 95 PREVIOUS EDITIONS MAY BE USED			

As you look at the form, note that Section 6 of the form is divided into four columns: pool, allocation base, factor, and amount. The four columns correspond to information that you will need to calculate your cost of money objective.

- **Pool.** The pool column is used to identify the name of each pool. Identifying the pool by name facilitates calculations by assuring that all appropriate pools are considered and the appropriate factor is used in making each calculation.
- **Allocation Base.** The allocation base is the base value for the accounting period from your pricing position. If you have more than one negotiation position - such as a minimum, a maximum, and an objective - you would have a different form for each position and each accounting period.
- **Factor.** In this column, use the Government objective for the appropriate cost of money factor for the accounting period. If there is a forward pricing rate agreement, use the agreed-to rate. If there is disagreement over the appropriate rate, use a reasonable rate based on the available information.

- **Amount.** The amount is the cost of money for each pool computed by multiplying the amount in the allocation base column by the amount in the factor column.

After all factors are applied to the appropriate bases, the amounts are totaled to determine the total facilities capital cost of money applicable to that accounting period.

*Calculating Contract Facilities Capital Employed.* In the DoD, the DD Form 1861 is also used to calculate facilities capital employed. This serves as an estimate of the contractor facility investment required to complete the contract effort performed during the accounting period .

Remember that the total business-unit facilities capital cost of money for each pool is calculated by multiplying the net book value of facilities capital by the current Treasury-determined cost of money rate.

To calculate the facilities capital employed on the contract during each accounting period, you reverse the process -- divide the contract facilities cost of capital for the accounting period by the current cost of money rate.

The figure below demonstrates the facilities capital employed calculation using the facilities capital cost of money calculations from the figure above and an 8.0 percent cost of money rate:

CONTRACT FACILITIES CAPITAL COST OF MONEY	Form Approved OMB No. 0704-0267 Expires Mar 31, 1998
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Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0267), Washington, DC 20503.

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1. CONTRACTOR NAME		2. CONTRACTOR ADDRESS	
3. BUSINESS UNIT			
4. RFP/CONTRACT PIIN NUMBER		5. PERFORMANCE PERIOD	
6. DISTRIBUTION OF FACILITIES CAPITAL COST OF MONEY			
POOL	ALLOCATION BASE	FACILITIES CAPITAL COST OF MONEY	
		c.	
a.	b.	FACTOR	AMOUNT
Material	\$90,000	.00500	\$450
Engineering	\$74,000	.01500	\$1,110
Manufacturing	\$150,000	.11000	\$16,500
G&A	\$700,000	.00124	\$868
d. TOTAL			\$18,928
e. TREASURY RATE			8.0 %
f. FACILITIES CAPITAL EMPLOYED (TOTAL DIVIDED BY TREASURY RATE)			\$236,600
7. DISTRIBUTION OF FACILITIES CAPITAL EMPLOYED			
		PERCENTAGE	AMOUNT
		a.	b.
LAND		%	
BUILDINGS		%	
EQUIPMENT		%	
FACILITIES CAPITAL EMPLOYED		100%	
DD Form 1861, APR 95 PREVIOUS EDITIONS MAY BE USED			

*Distributing Facilities Capital Employed.* To encourage contractor investment in productive facilities, the DoD weighted guidelines method of profit/fee analysis provides different profit weights for each different type of facility -- land, buildings, and equipment. To facilitate profit/fee calculations, one more series of calculations is

required before the facilities capital employed can be used in DoD weighted guidelines.

Distributing Facilities Capital Employed (cont) DD Form 1861, Section 7 is used to estimate the amount of each type of facility employed on the contract. The percentage assigned to each type of facility in Section 7 is equal to the overall percentage of contractor net book value invested in that type of facility. Percentages are proposed by the contractor and subject to Government review. Of course, the sum of all percentages must equal 100 percent.

To estimate the value of each type of facility employed on the contract, multiply the total facilities capital employed by the appropriate percentage. The result is the estimated amount of that type of facility employed on the contract during the accounting period. The sum of all three amounts must equal the total facilities capital employed during the accounting period. Some adjustment may be required to compensate for rounding error in the various calculations.

The figure below demonstrates distribution of the facilities capital employed assuming that overall contractor facilities capital is 20 percent land, 50 percent buildings, and 30 percent equipment:

CONTRACT FACILITIES CAPITAL COST OF MONEY	Form Approved OMB No. 0704-0267 Expires Mar 31, 1998
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3. BUSINESS UNIT			
4. RFP/CONTRACT PIIN NUMBER		5. PERFORMANCE PERIOD	
6. DISTRIBUTION OF FACILITIES CAPITAL COST OF MONEY			
POOL	ALLOCATION BASE	FACILITIES CAPITAL COST OF MONEY	
		c.	
a.	b.	FACTOR	AMOUNT
Material	\$90,000	.00500	\$450
Engineering	\$74,000	.01500	\$1,110
Manufacturing	\$150,000	.11000	\$16,500
G&A	\$700,000	.00124	\$868
d. TOTAL			\$18,928
e. TREASURY RATE			8.0 %
f. FACILITIES CAPITAL EMPLOYED (TOTAL DIVIDED BY TREASURY RATE)			\$236,600
7. DISTRIBUTION OF FACILITIES CAPITAL EMPLOYED			
		PERCENTAGE	AMOUNT
		a.	b.
LAND		20.0 %	\$47,320
BUILDINGS		50.0 %	\$118,300
EQUIPMENT		30.0 %	\$70,980
FACILITIES CAPITAL EMPLOYED		100.0 %	\$236,600
DD Form 1861, APR 95 PREVIOUS EDITIONS MAY BE USED			