

<p style="text-align: center;">SUMMARY OF MAJOR CHANGES TO DOD 7000.14-R, VOLUME 6B, CHAPTER 5 “STATEMENT OF NET COST”</p> <p style="text-align: center;">Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure that includes the revision</p>		
PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Incorporated guidance from OMB Circular A-136 regarding the formats and instructions for financial statements. The Statement of Net Cost note was renumbered to Note 18.	Update
Figures 5-1 and 5-2	Figures revised to remove the display of intragovernmental and public information in accordance with OMB Circular A-136. The intragovernmental information will be disclosed in Note 18. Figures are now moved to the end of the chapter.	Update
050103	Added guidance on dollar amount presentations within note narratives.	Add
050201.B	Revised instructions and renumbered subsequent sections to comply with OMB Circular A-136.	Update
050201	Updated to reflect reporting requirements for imputed costs as stated in FASAB Interpretation No. 6, Accounting for Imputed Intraentity Costs: An Interpretation of SFFAS No. 4, and SFFAS No. 30, Interentity Cost Implementation Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts.	Update
050202	Added website to the Department of the Treasury which provides a crosswalk to USSGL accounts and applicable attributes.	Update
050202.A	Revised reporting requirements for heritage assets and stewardship land to be included as Required Supplemental Information.	Update
050202.A.1 through A.3	Removed separation of intragovernmental and public gross costs, earned revenue, and net cost. The intragovernmental information will now be included in Note 18.	Update
050301	Revised reference to the list of appropriations aggregated to the major appropriation groupings to be found in the Defense Departmental Reporting System.	Update

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CHAPTER 5

STATEMENT OF NET COST★0501 FORMAT FOR THE STATEMENT OF NET COST

050101. Format for the Working Version of the Consolidated Statement of Net Cost. The format presented in Figure 5-1 shall be used for the working version of the statements. The amounts shall be in dollars and cents (as shown in Figure 5-1) for all Department of Defense (DoD) working versions of the financial statements. Line numbers are included on the working version of statements.

050102. Format for the Working Version of the Consolidating Statement of Net Cost. The format presented in Figure 5-2 will be used for the working version of the statements. The amounts shall be in dollars and cents (not shown in Figure 5-2) for DoD Agency-wide and Component statements. Line numbers will be included as shown in Figure 5-2.

050103. Published Statement of Net Cost Format. The final DoD Agency-wide published statements 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 shall 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 Figures 5-1 and 5-2 are not required for the final published version but are for reference purposes only. These line number references shall not be included on the final published statements.

★0502 INSTRUCTIONS FOR THE PREPARATION OF THE STATEMENT OF NET COST050201. General Instructions

A. Statement of Net Cost Format. The Statement of Net Cost is designed to show separately the elements of the net cost of the reporting entity's operations for the period. Formats are displayed using notional data to assist the user. All figures used on this financial statement should be preclosing trial balances.

B. Net Cost of Operations. The net cost of operations includes program costs and costs and revenue that can not be assigned to specific programs. Program costs are the gross costs incurred by the reporting entity less any related exchange revenue earned and other gains and losses from its activities. Gross costs and earned revenue will be disclosed in Note 18. The gross cost of a program consists of the full cost of the outputs produced by that program plus any

nonproduction costs that can be assigned to the program. Nonproduction costs are costs linked to events other than the production of goods and services. By disclosing the gross and net cost of the entity's programs, the Statement of Net Cost reports information that can be related to the output and outcome of the programs and activities.

C. Programs Reported. The Department has identified performance measures based on the Department's missions and outputs. The Department does not, however, 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. Accordingly, on the Consolidating Statement of Net Cost, the Department breaks out programs by the nine major appropriation groupings addressed in paragraph 050301, below. Present programs vertically down one column. The DoD Agency-wide consolidating net cost statement shall present program appropriation groupings vertically down and suborganizations horizontally across the page (see Figure 5-2).

D. Subentity Programs. Preparers of the Statement of Net Cost shall decide the exact classification of subentities and major programs based on the missions and outputs described in the entity's strategic and performance plans, the entity's budget structure, the guidance for defining and structuring responsibility segments presented in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards, and the requirements of the Government Performance and Results Act (GPRA). If data currently are available at the program level, then the reporting entities may provide such information as a supplemental schedule. The Statement of Net Cost and related supporting schedules shall show the net cost of operations for the reporting entity as a whole and its subentities and programs, as applicable. Discuss in Note 18, those costs or revenue that cannot be attributed to specific output or programs. In the Consolidating Statement of Net Cost, the Department identifies DoD Components by the reporting entities described in Chapter 1, section 0106, of this volume. The Components further break out the Consolidating Statement of Net Cost, as appropriate. Additional supporting schedules may be included in Note 18, if necessary. Guidance concerning the preparation of the notes is contained in Chapter 10 of this volume.

E. 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 produced by a responsibility segment as the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, regardless of funding sources and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities. Imputed costs and revenue must identify the trading partner who has covered these costs.

1. Interentity Imputed Costs. Costs displayed on the Statement of Net Cost shall include certain imputed costs as directed by the Office of Management and Budget (OMB). All federal agencies are required to report imputed costs for the categories described below to ensure consistency across the government. Imputed costs represent those costs that are paid in total or in part by other entities. Limit the recognition of interentity imputed costs to three categories: (1) employees' pension, post-retirement health and life insurance benefits, (2) other post-employment benefits for retired, terminated, and inactive

employees, which includes unemployment and workers compensation under the Federal Employees' Compensation Act, and (3) losses in litigation proceedings, see Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, "Accounting for Treasury Judgment Fund Transactions" for additional information. Full implementation of the interentity cost provision in SFFAS No. 4 is required for reporting periods beginning after September 30, 2008, in accordance with SFFAS 30, "Interentity Cost Implementation Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts."

2. Intraentity Imputed Costs. Costs displayed on the Statement of Net Cost shall also include intraentity imputed costs as required by the SFFAS No. 4, Interpretation No. 6. 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 department or larger reporting entity (i.e. other bureaus, components, or responsibility segments within the department or larger reporting entity). An example of an imputed cost may be the occupation of business space rent free. The limitation imposed on imputed interentity costs is not applicable to imputed intraentity costs. Therefore, intragovernmental costs may be assigned, allocated, or imputed as determined by department management in accordance with the full-cost provision of SFFAS No. 4, to account for the full cost of a program and its output(s).

a. Imputed Costs for Military Pension Expense. Each of the 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. Report administrative entity expenses only in the Military Retirement Fund audited financial statements.

b. Imputed Costs for Military Health Benefits. Each of the DoD reporting entities shall recognize imputed costs that are 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). Report the administrative entity's actual expenses only in the Medicare Eligible Retiree Health Care Fund, Defense Health Program, and Other Defense Organizations - General Funds financial statements.

050202. 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 applicable to each line item for the Statement of Net Cost. The Department of the Treasury crosswalk is reviewed by DFAS quarterly for changes which will be updated in the Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS).

A. Program Costs – Line 1. This line includes the full costs of each program's output and 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. The reporting entity should accumulate and assign costs in accordance

with the costing methodology in SFFAS No. 4. Program costs also include any nonproduction costs that can be assigned to the program but not to its outputs. Include in the costs of program outputs costs of services provided by other entities whether or not the providing entity is fully reimbursed. The costs of program outputs shall include specific imputed costs that are incurred by the reporting entity but paid in total or in part by other entities to the extent that accounting standards require them to be recognized in financial statements, in accordance with FASAB Interpretation No. 6. The Department has elected not to apply the full-costing concept to selected programs (e.g., Base Realignment and Closure and environmental cleanup). Disclose in note 18, the costs for those items which are included with the reporting entities that receive the funding, separately from other nonproduction costs, if incurred. Costs related to the production of outputs shall be reported separately from costs that are not related to the production of outputs, nonproduction costs. The cost of stewardship PP&E shall be reported separately from other nonproduction costs. These include the cost of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use heritage assets, and the cost of acquiring stewardship land. This is reported by the entity receiving the funds, and disclosed in note 18. Report material amounts related to heritage and stewardship land in the Required Supplemental Information section of the financial statements in accordance with guidance contained in [Chapter 12](#) of this volume. Disclose in note 18 those expenses that are imputed to the reporting entity. Finally, agencies shall consider differentiating other significant costs if, 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. For example, when reporting on a program that makes transfer payments, it may be useful to differentiate between the transfer payments and administrative costs. Elements of other nonproduction costs are considered significant if the element represents more than 10 percent of the value of the line.

1. [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.

2. [Less: Earned Revenues – Line 1.B.](#) This line contains revenue that are exchange revenue that arise when a federal entity provides goods and services. Report the full amount of exchange revenue on the Statement of Net Cost or supplementary schedule regardless of whether the entity is permitted to retain the revenue in whole or in part. Report any portion of exchange revenue of the entity that cannot be retained by the entity as a transfer-out on the Statement of Changes in Net Position. An example is interest earned on delinquent receivables transferred to the United States Treasury upon collection. This line also includes other exchange gains and losses. See [Chapter 13](#) of this volume for elimination reporting requirements.

a. 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, then deduct earned revenue from the gross cost of programs to determine the net program costs or, if that is not practical or reasonably possible, then deduct earned revenue from the costs of suborganizations to determine the suborganizations' net cost of operations.

b. 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 Statement of Net Cost the ability to ascertain whether exchange revenue are sufficient to cover the costs incurred to produce the goods or services involved.

3. Net Program Costs – Line 1.C. Line 1.A. minus line 1.B. This line is the difference between gross costs and its related exchange revenue.

B. Costs Not Assigned to Programs – Line 2. A reporting entity and its suborganizations may incur: (1) 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 (2) nonproduction costs that cannot be assigned to a particular program. 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.” Include extraordinary items (gains/losses) on this line, and if material, representing more than 10 percent of the value of the line, then disclose in note 18.

C. Less: Earned Revenue Not Attributable to Programs – Line 3. Report earned revenue that is insignificant or cannot be attributed to particular outputs or programs separately as a deduction in arriving at net cost of operations of the suborganization or reporting entity as a whole.

D. Net Cost of Operations – Line 4. 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 is funded by sources other than exchange revenues. Report the financing sources for net cost of operations on the Statement of Changes in Net Position.

★0503 PROGRAM PRESENTATION

050301. The DoD Agency-wide Program Presentation. Report the program data from the Statement of Net Cost for the consolidated DoD Agency-wide financial statements by major appropriation grouping until its financial processes and systems are upgraded. The appropriation groups to be reported are: (A) Military Personnel; (B) Operation and Maintenance; (C) Procurement; (D) Research, Development, Test and Evaluation; (E) Military Construction/Family Housing Construction; (F) Military Retirement Fund; (G) Civil Works; (H) Working Capital Funds, and (I) Other Programs.

050302. DoD Reporting Entities. Managers of the DoD reporting entity identified in paragraph 0106 of this volume may report the program distribution of net costs by existing entity program units or by appropriation grouping as specified in paragraph 050301, above. If management chooses a program distribution other than by the appropriation group as in paragraph 050301, above, then provide a supplemental Statement of Net Cost by appropriation grouping. This supplemental schedule is required in order to prepare the consolidated DoD Agency-wide Statement of Net Cost. [The list of appropriations included in the major appropriation groupings can be viewed in the DDRS-AFS.](#)

DEPARTMENT OF DEFENSE [Agency] [REPORTING ENTITY] CONSOLIDATED STATEMENT OF NET COST FOR THE YEARS ENDED SEPTEMBER 30, 20XX AND 20XX		
(Amounts in dollars and cents)	Current Year	Prior Year
1. Program Costs:		
A. Gross Costs	\$ 1,364,200,000.00	\$ 1,159,500,000.00
B. (Less: Earned Revenue)	(318,400,000.00)	(318,400,000.00)
C. Net Program Costs	<u>\$ 1,045,800,000.00</u>	<u>\$ 841,100,000.00</u>
2. Cost Not Assigned to Programs	200,000,000.00	300,000,000.00
3. (Less: Earned Revenue Not Attributable to Programs)	(20,000,000.00)	(30,000,000.00)
4. Net Cost of Operations	<u>\$ 1,225,800,000.00</u>	<u>\$ 1,111,100,000.00</u>
The accompanying notes are an integral part of these financial statements. See Notes 1 and 18.		

★Figure 5-1 Consolidated Statement of Net Cost

DEPARTMENT OF DEFENSE REPORTING ENTITY CONSOLIDATING STATEMENT OF NET COST <i>For the Years Ending September 30, 20xx and 20xx</i>												
	Subentity A	Subentity B	Subentity C	Subentity D	Subentity E	Subentity F	Subentity G	Subentity H	Combined Total	Elimination	Current Year Consolidated	Prior Year Consolidated
1. Program Costs												
A. Program A												
1. Gross Cost	\$ 46.8	\$ 9.1	\$ 204.4	\$ 25.7	\$ 10.3	\$ 38.2	\$ 278.4	\$ 116.4	\$ 729.3	\$ 50.0	\$ 679.3	\$ 579.3
2. (Less: Earned Revenue)	(17.3)	(9.1)	(5.1)	(22.1)	(4.6)	(12.9)	(12.8)	(4.9)	(88.8)	(3.0)	(85.8)	(85.8)
3. Net Program Costs	\$ 29.5	\$ 0.0	\$ 199.3	\$ 3.6	\$ 5.7	\$ 25.3	\$ 265.6	\$ 111.5	\$ 640.5	\$ 47.0	\$ 593.5	\$ 493.5
B. Program B												
1. Gross Cost	\$ 234.0	\$ 39.3	\$ 35.6	\$ 3.2	\$ 56.6	\$ 29.4	\$ 16.6	\$ 8.1	\$ 422.8	\$ 50.0	\$ 372.8	\$ 272.8
2. (Less: Earned Revenue)	(3.4)	0.0	(4.3)	(12.6)	(7.9)	(3.2)	(12.9)	(4.5)	(48.8)	(3.0)	(45.8)	(45.8)
3. Net Program Costs	\$ 230.6	\$ 39.3	\$ 31.3	\$ (9.4)	\$ 48.7	\$ 26.2	\$ 3.7	\$ 3.6	\$ 374.0	\$ 47.0	\$ 327.0	\$ 227.0
C. Other Programs												
1. Gross Cost	\$ 34.1	\$ 153.8	\$ 79.0	\$ 13.3	\$ 33.0	\$ 25.6	\$ 8.4	\$ 14.9	\$ 362.1	\$ 50.0	\$ 312.1	\$ 307.4
2. (Less: Earned Revenue)	(9.6)	(34.2)	(34.1)	(19.1)	(5.6)	(23.3)	(3.4)	(60.5)	(189.8)	(3.0)	(186.8)	(186.8)
3. Net Program Costs	\$ 24.5	\$ 119.6	\$ 44.9	\$ (5.8)	\$ 27.4	\$ 2.3	\$ 5.0	\$ (45.6)	\$ 172.3	\$ 47.0	\$ 125.3	\$ 120.6
D. Total Program Costs:												
1. Gross Cost	\$ 314.9	\$ 202.2	\$ 319.0	\$ 42.2	\$ 99.9	\$ 93.2	\$ 303.4	\$ 139.4	\$ 1,514.2	\$ 150.0	\$ 1,364.2	\$ 1,159.5
2. (Less: Earned Revenue)	(30.3)	(43.3)	(43.5)	(53.8)	(18.1)	(39.4)	(29.1)	(69.9)	(327.4)	(9.0)	(318.4)	(318.4)
3. Net Program Costs	\$ 284.6	\$ 158.9	\$ 275.5	\$ (11.6)	\$ 81.8	\$ 53.8	\$ 274.3	\$ 69.5	\$ 1,186.8	\$ 141.0	\$ 1,045.8	\$ 841.1
2. Cost Not Assigned to Programs	\$ 19.3	\$ 3.9	\$ 40.2	\$ 22.1	\$ 45.9	\$ 21.9	\$ 43.3	\$ 70.4	\$ 267.0	\$ 67.0	\$ 200.0	\$ 300.0
3. (Less: Earned Revenues Not Programs)	(2.1)	0.0	(1.5)	(6.1)	(3.2)	(4.4)	(1.5)	(5.1)	(23.9)	(3.9)	(20.0)	(30.0)
4. Net Costs of Operations	\$ 301.8	\$ 162.8	\$ 314.2	\$ 4.4	\$ 124.5	\$ 71.3	\$ 316.1	\$ 134.8	\$ 1,429.9	\$ 204.1	\$ 1,225.8	\$ 1,111.1

The accompanying notes are an integral part of these financial statements. See notes 1 and 18.

★ Figure 5-2 Consolidating Statement of Net Cost