

11. FACILITIES CAPITAL COST OF MONEY

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11.1 OVERVIEW OF FACILITIES CAPITAL COST OF MONEY

This chapter examines the terms, concepts, and issues involved in analyzing facilities capital cost of money. Federal Aviation Administration Acquisition Management System [FAA AMS Procurement Guidance T3.3.2D.2.7 (Contract Cost Principles)] details the process of determining allowability, accounting, and payment of Facilities Capital Cost of Money (represented as COM herein). The approach described in this chapter is based upon the use of CASB-CMF and FAA 4220.34 or DD 1861 forms. Analysts should ensure that proposed or claimed cost of money is in compliance with the provisions of CAS 414.

COM is an imputed cost that represents the cost of the contractor employing capital when investing in facilities or assets under construction that benefit the Government. As a first step toward understanding COM, it is necessary to become familiar with the terms and definitions shown in Table 11-1.

Table 11-1 Common Terms and Definitions [FAA AMS Procurement Guidance T3.3.2.7 (Contract Cost Principles)]

| Terms | Definitions |
|---|--|
| Business Unit | Any segment of an organization, or an entire business organization, not divided into segments. |
| Cost of Capital Committed to Facilities | An imputed cost determined by applying a cost of money rate to facilities capital. |
| Facilities Capital | The net book value of tangible capital assets and those intangible capital assets that are subject to amortization. |
| Intangible Capital Assets | An asset that has no physical substance, has more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the benefits it yields. (Example: Software) |
| Net Book Value (NBV) of an Asset | The acquisition value of an asset plus any capitalized improvements to that asset, less accumulated depreciation. |
| Tangible Capital Assets | An asset that has physical substance, more than minimal (negligible) value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the benefits it yields. (Example: Computer) |

Prior to issuing Cost Accounting Standard (CAS) 414 in 1976, the Government did not recognize the cost of money as an allowable contract cost. CAS 414 established facilities capital cost of money as an element of cost.

This set forth the guidelines for contractors to follow in order to receive COM and established the allocability of COM as a contract cost. CAS 414 provides the rationale and a viable direction for determining the facilities capital cost of money.

CAS 414 resulted from several studies that showed an outdated and shrinking defense industrial base. Contractors were earning a lower return on invested capital from their Government work than from their commercial work, drawing investment dollars away from defense oriented facilities. The Government implemented CAS414 as an incentive for contractors to invest in manufacturing facilities geared toward defense based production. The guidelines established by CAS414 provide standardized methodology that can be used to determine the proper amount of compensation to be paid to a contractor based on the level of investment in productive facilities.

COST OF MONEY AS AN ELEMENT OF THE COST OF FACILITIES CAPITAL

CAS 414 established criteria for the measurement and allocation of the cost of capital committed to facilities with the purposes of:

- Rewarding contractors for investment in facilities that would benefit Department of Defense (DoD) (or other Government agencies).
- Motivating increased productivity and cost reduction through modernization of production facilities.
- Generating efficiencies in the performance of Government contracts.

When a contractor invests in facilities that benefit the Government, other business opportunities are foregone that may be more profitable. For example, the contractor could have placed money in a high quality, interest bearing financial instrument and earned a fixed return, while assuming little or no risk. This is commonly referred to as a contractor's opportunity cost. Through investment in Government facilities, the contractor bears these opportunity costs and the risks inherent in such business endeavors. The Government, however, receives the benefit of the facilities that the contractor employs in contract performance and avoids the risks associated with facilities ownership.

Corporations will not begin a project if the expected cost of capital is higher than the expected return. In essence, corporations are compensated for their costs and the associated risks assumed; otherwise, projects would not be undertaken. CAS 414 recognizes these costs as "real" and attempts to compensate the contractor in a "fair and reasonable" manner. In short, through

CAS 414, the Government attempts to properly compensate contractors for the use of their facilities.

In accordance with FAA AMS Procurement Guidance T3.3.2.2-7 (Contract Cost Principles) COM is allowable if:

- *It is measured, assigned, and allocated to contracts in accordance with 48 CFR 9904.414 or measured and added to the cost of capital assets under construction in accordance with 48 CFR 9904.417, as applicable;*
- *The requirements of Cost (48), Asset Valuations Resulting from Business Combinations, which limit the allowability of cost of money, are followed; and*
- *The estimated facilities capital cost of money is specifically identified or proposed in cost proposals relating to the contract under which this cost is to be claimed.*

The cost of capital committed to facilities is an imputed cost. The Cost Accounting Standards Board (CASB) has concluded that the imputed cost be recognized as a contract cost because it is “real and relevant”. Therefore, if a contractor elects to claim COM, it may obtain reimbursement as an “actual incurred cost” on cost reimbursement contracts and through progress payment invoices of a fixed-price contract.

11.2 CALCULATING FACILITIES CAPITAL COST OF MONEY FACTORS

Since a contractor’s facilities are often applied toward the performance of multiple contracts, it can be difficult to calculate an exact value for the proportion of facilities used on any one particular contract. To reduce the complexity and subjectivity of the allocation of COM, CAS 414 specifies the use of the contractor’s overhead and general and administrative (G&A) bases as allocation bases for COM.

COM factors convert the direct costs proposed on a contract into the cost of money associated with the portion of facilities they support. When a contractor claims COM, the CASB-CMF (Cost of Money Factors) Form titled “Facilities Capital Cost of Money Factors Computation” should be completed. This form requires the contractor to assign assets to appropriate “expense pools” and calculate a COM factor for each pool. The purposes of CASB-CMF are: 1.) to accumulate total facilities capital net book values allocated to each business unit for the contractor cost accounting period, and 2.) to convert those values to facilities capital cost of money factors applicable to

each overhead or G&A expense allocation base employed within a business unit. CASB-CMF is shown in Figure 11-1.

Analysis of cost of money factors should examine the procedures used by the contractor in each stage of the development of these factors. Government auditors will typically audit COM factors and bases when reviewing indirect rate forward pricing and incurred cost submissions by the contractor.

11.2.1 Utilizing the CASB-CMF Form

Before the analyst can properly analyze COM factors, he or she should fully understand their development. By tracing the methodology of CASB-CMF, the following section will detail the steps that a contractor performs when developing COM factors. A sample CASB-CMF form appears in Figure 11-1.

Applicable Cost of Money Rates (Column 1 of the CASB-CMF Form)

The first value entered into the CASB-CMF form is the current cost of money rate. It is entered in Block 1 of the form. The cost of money rate, as defined in CFR 414.50(b), is the arithmetic mean of the interest rates in effect for that cost accounting period. It is published by the Secretary of Treasury pursuant to Public Law 92-41. The Secretary of Treasury publishes this rate in January (for the period January through June) and in July (for the period July through December) in the *Federal Register*. These rates are also published online, currently at www.fms.treas.gov/prompt/rates.html. Even if the performance period of a contract extends beyond the current six month period, offerors must use the current rate when proposing FCCOM.

Accumulation and Direct Distribution of Net Book Value (Column 2 of the CASB-CMF Form)

The average net book value (NBV) of assets held during the cost accounting period is reported in Column 2. The contractor must divide its assets among three categories: Recorded Assets, Leased Property, and Corporate or Group Facilities. These categories are discussed in Table 11-2.

Figure 11-1. CASB-CMF Form

FACILITIES COST OF CAPITAL
 COST OF MONEY FACTORS COMPUTATION
 FISCAL YEAR ENDED 3/31/2000
 \$K

| PERIOD | TREAS | | COM |
|------------|-------|--------|---------------|
| | RT | MONTHS | |
| APR-JUN99 | 5 | 3/12 | 1.25 |
| JUL-DEC 99 | 6.5 | 6/12 | 3.25 |
| JAN-MAR 00 | 6.75 | 3/12 | <u>1.6875</u> |
| | | | 6.1875 |

| CONTRACTOR: XYZ CORPORATION | | ADDRESS ANYWHERE, USA | | | | | |
|----------------------------------|----------------------------------|--|--------------------------------|-------------------------|---|-----------------------------------|---|
| BUSINESS UNIT: | | | | | | | |
| COST ACCOUNTING PERIOD | 1. APPLICABLE COST OF MONEY RATE | 2. ACCUMULATION & DIRECT DISTRIBUTION OF IWB | 3. ALLOCATION OR UNDISTRIBUTED | 4. TOTAL NET BOOK VALUE | 5. COST OF MONEY FOR THE COST ACCOUNTING PERIOD | 6. ALLOCATION BASE FOR THE PERIOD | 7. FACILITIES CAPITAL COST OF MONEY FACTORS |
| | 6.1875% | | | | | | |
| BUSINESS UNIT FACILITIES CAPITAL | RECORDED | 69,761 | BASIS OF ALLOCATION | COLUMNS [2] + [3] | COLUMNS [1] X [4] | IN UNITS OF MEASURE | COLUMNS [5] / [6] |
| | LEASED PROPERTY | 162,290 | | | | | |
| | CORPORATE OR GROUP | | | | | | |
| | TOTAL | 232,051 | | | | | |
| | UNDISTRIBUTED | 193,290 | | | | | |
| | DISTRIBUTED | 38,761 | | | | | |
| OVERHEAD POOLS | OVERHEAD | 30,345 | 167,958 | 198,303 | 12,270 | 656,824 | 0.01868 |
| | less COM on IPAD&P labor | | | | (445) | 23,812 | (0.01869) |
| | | | | | | | |
| G&A EXPENSE POOLS | G&A | 8,416 | 25,332 | 33,748 | 2,088 | | |
| | plus COM on IPAD&P labor | | | | 445 | | |
| | | | | | 2,533 | 3,151,320 | 0.00080 |
| TOTAL | | 38,761 | 193,290 | 232,051 | 14,358 | | |



Table 11-2. NBV Asset Categories

| Asset Category | Description |
|-------------------------------|--|
| Recorded Assets | Assets owned by the contractor (or business unit), carried on its books, and used in the regular conduct of business. |
| Leased Property | Consists of the capitalized value of assets acquired by a capital lease to be treated as purchased property in lieu of rental costs. |
| Corporate or Group Facilities | A business unit's allocable share of corporate owned and leased facilities. |

The total amount of assets allocated to the three categories must equal the sum of **distributed** and **undistributed** assets. Distributed assets are those the contractor allocates solely to a specific overhead, G&A, or any other indirect cost pool. Undistributed assets are those that remain (assets used by personnel in several different overhead accounts that are not solely applicable to a specific indirect cost pool).

CAS 414 requires the contractor to calculate the “average” NBV of its facilities, equipment, and land and to allocate the NBV to the appropriate expense pools. The NBVs should be derived from the same values as those used to develop the depreciation expenses or amortization included in the projected overhead rates. The only difference is that land is never included in an expense pool because it is not a depreciable asset. However, CAS 414 does recognize that land has a value--land could be sold and the money could earn a return. Accordingly, the standard permits the inclusion of land's NBV in FCCOM calculations. CAS 414 states that “land is integral to the regular operation of a business unit and shall therefore be included.”

Methods of NBV Calculation

A key element in the cost of money calculation is the NBV of facilities. CAS 414 requires the offeror to use the average NBV of its facilities for the cost accounting period using the beginning and year-end NBVs. Normally, the analyst would request an audit of the proposed cost of money factors giving special attention to the accuracy of the proposed NBVs. Two methods are available for determining NBV: the historical method and the projected method.

The Historical Method of NBV Calculation. The underlying assumption under the historical method is that the NBV of assets has been and will remain relatively unchanged. As a result, only one form, CASB-CMF, is required regardless of how many periods are forecast. The primary considerations for the analyst or Government auditor include the following (*Introduction to Cost Analysis*, pages 11-14):

- Verification that the NBV of assets concurs with contractor records.
- Verification that asset allocation to burden centers is appropriate and in accordance with procedures used in allocation of depreciation expense for the same facilities.
- Verification of the allowability of the costs used to develop the factors.
- Verification of the actual calculations used to develop the factors.

The Projected Method of NBV Calculation. The projected method uses the contractor's estimates of future NBVs. There are three parts that make up each NBV projection (*Introduction to Cost Analysis*, pages 11-15):

- The NBV of current assets that will be in service during the projected accounting period.
- A projection of new assets that will be acquired during the projected accounting period.
- A projection of current assets or projected new assets that will be disposed of during the projected accounting period.

Under the projected method, the primary considerations for the analyst or Government auditor performing a review are (*Introduction to Cost Analysis*, pages 11-15):

- Verification of historical bases for projections of the NBV of assets.
- Review of contractor support for projection of asset adjustments, including identification of assets to be acquired or disposed of, the time phasing of asset changes, and the capital budget considering these adjustments.
- Verification of the allowability of the projected costs used to develop these factors.
- Review of the methods and rationale used to project burden center bases for the projected periods.
- Verification of the actual calculations used to develop the factors.

Sections on Overhead Pools and G&A Expense Pools

The lower section of Column 2 of the CASB-CMF Form is used for the allocation of distributed facilities capital items. Distributed items should be allocated to their appropriate indirect cost pool. The proper titles for the cost pools to which distributed facilities capital items have been allocated are listed in the lower section of Column 1 of the form.

Allocating Undistributed Assets (Column 3 of the CASB-CMF Form)

Once distributed assets have been assigned to the appropriate indirect cost

pools, undistributed assets should be allocated to the appropriate overhead and G&A pools. CAS 414 allows the contractor to allocate undistributed assets to its various overhead and G&A pools on any reasonable basis that approximates the actual absorption of depreciation or amortization of the facilities. The goal is to divide the costs so that each indirect cost pool receives its proper share. In other words, the contractor allocates the NBV of the main facilities to the indirect cost pools in a manner that closely relates to how the expenses are allocated to their overhead pools. A supporting worksheet of this allocation should be provided if more than one service center or other similar “intermediate” cost objective is involved in the reallocation process. The analyst should pay close attention to the undistributed assets, assuring that they are allocated in a reasonable manner. The sum of distributed and undistributed assets should equal the “Total” line in Column 2 of the CASB-CMF form.

An alternative method, which places all undistributed NBV in G&A, may be used if the contracting parties agree and if any one of two conditions is met:

- The depreciation or amortization generated by these assets must be immaterial, or
- The results from applying the alternative method must not differ materially from the “regular” procedure.

Determining Total Net Book Value (Column 4 of the CASB-CMF Form)

The sum of the amounts in Columns 2 and 3 provides the total NBV of assets allocated to each expense pool and represents the amount of money that would be earning a return if invested elsewhere had it not been invested in facilities. The total of this column must agree with the sum of the recorded assets, leased property, and corporate or group facilities capital recorded in Column 2 of the CASB-CMF form.

Calculating COM for the Cost Accounting Period (Column 5 of the CASB-CMF Form)

To calculate COM, the contractor multiplies the total net book value of each expense pool (column 4) by the COM rate (entered in Block 1). These values are placed in Column 5. The sum of all values in Column 5 represents the opportunity cost the contractor has forgone during the cost accounting period based on the given Treasury rate.

Determining the Appropriate Allocation Base for an Accounting Period, in Unit(s) of Measure (Column 6 of the CASB-CMF Form)

The appropriate base for each expense pool is entered in Column 6. CAS 414 requires that each base unit-of-measure used in the COM calculation be

compatible with the overhead and G&A expense allocation procedures. For example, if a contractor uses direct labor as the base for computing direct labor overhead, he or she would enter the total amount of projected direct labor costs for the cost accounting period. These values are obtained from the contractor's projected expenses for the proposal year. The total base unit-of-measure used for allocation in this column refers to all work done in an organizational unit associated with the indirect cost pool and not to Government work alone.

Calculating Facilities Capital Cost of Money Factors (Column 7 of the CASB-CMF Form)

The COM factors are the quotient of COM in Column 5 separately divided by the corresponding overhead or G&A expense base in Column 6 of the form. Each computation must be carried to five decimal places.

These factors represent compensation to the contractor for investing in the assets assigned to each cost pool. For example, if the G&A COM factor was 0.01500, the contractor would add \$0.015 to each G&A base dollar in order to be compensated for foregone opportunity cost. This foregone opportunity is the result of the contractor's decision to invest in facilities utilized in the performance of Government contracts instead of investment in other non-Government facilities.

Utilizing FAA Form 4220.34 or DD Form 1861

FAA Form 4220.34, displayed as Figure 11-2, or DD Form 1861, displayed as Figure 11-3, provide media from which to compute the estimated facilities capital cost of money for a specific project, using FAA's position for the Contract Facilities Capital Cost of Money Factors the contractor developed on Form CASB-CMF. The factors are also used in developing the FAA negotiation position for a project's COM. In addition, the FAA's position for the factors is also used to develop profit/fee objectives on the corresponding forms, FAA Form 4220.32 or DD Form 1547. The FAA forms are currently found online under <http://fast.faa.gov/ProcurementToolboxForms.cfm>. Use an Internet search engine to find DOD's Contract Pricing Reference Guides for information on the DOD forms, as their location may change. Currently they may be found at: www.acq.osd.mil/dpap/sitemap.html.

Both FAA and DD forms require contractors to list all business unit overhead and G&A pools whose costs will be allocated to the contract and whose structure is compatible with the contractor's proposal and Form(s) CASB-CMF. While the FAA form may not specifically cite G&A Expense Pools, they are to be treated as overhead pools for the purpose of this form. Thus on both

forms overhead and G&A expense pool cost data need to be input. For each pool listed, and for each year proposed, note the corresponding government position for the Contract Overhead Allocation Base cost elements proposed. Use the government's positions for the applicable cost of money factors in the Factors columns of the forms. Reflect the product of the factors and allocation bases in the Amount column. Reflect the sum of those products in item 6 of the FAA form or item d of the DD Form. Reflect the Treasury rate per Public Law 92-40, currently at fms.treas.gov/prompt/rates.html (also known as the Prompt Payment Act rates), in item 7 of the DOT Form and item e of the DD Form. The Contract Facilities Capital Employed for both forms is equal to the value for Contract Facilities Capital Cost of Money divided by the Facilities Capital Cost of Money rate.

COM factors convert the direct costs proposed on a contract into the cost of money associated with the portion of facilities they support. When a contractor claims COM, the CASB-CMF (Cost of Money Factors) Form must be completed by the contractor. This form requires the contractor to assign assets to appropriate "expense pools" and calculate a COM factor for each pool. The purposes of CASB-CMF are: 1.) to accumulate total facilities capital net book values allocated to each business unit for the contractor cost accounting period, and 2.) to convert those values to facilities capital cost of money factors applicable to each overhead or G&A expense allocation base employed within a business unit.

11.3 INSTRUCTIONS FOR FAA FORM 4220.34

Contract Facilities Capital and Cost of Money

PURPOSE. The purpose of this form is to compute the estimated facilities capital to be employed for a specific contract proposal. An intermediate step is to compute the estimated facilities capital cost of money, using the Contract Facilities capital Cost of Money Factors developed by the contractor on Form(s) CASB-CMF (See 48 C.F.R. 9904.414 or FAST 3.3.2 (d) Appendix 2, Selected Costs, paragraph 7, Cost of Money and may be submitted with a proposal or with the incurred cost submission. This procedure is intended to be fully compatible with Cost Accounting Standard 414 "Cost of Money," and is an element of the FAA Form 4220.34, "Contract Facilities, Capital and Cost of Money".

IDENTIFICATION. Identify the contractor, business unit and address. Identify the specific RFP or contract to which the computation pertains. Identify the estimated performance period of the contract.

OVERHEAD POOLS (Col. 1). List all business unit overhead pools and direct-charging service/support centers whose costs will be allocated to this

contract. The structure must be compatible with the contractor's cost proposal and form CASB-CMF.

COST ACCOUNTING PERIOD (Col. 2). This column is used only for the "projected" method of estimating contract facilities capital employed and cost of money. Each Overhead Pool listed must be further broken down by each Cost Accounting Period impacted by the performance period of the contract. The yearly breakdown must also correspond to yearly overhead allocation bases in the contractor's cost proposal, and to separate Forms CASB-CMF for each listed. If the "historical" method is used, the column should be ignored.

CONTRACT OVERHEAD ALLOCATION BASE (Col. 3). For each Overhead Pool and Cost Accounting Period listed, record the same Contract Overhead Allocation Base amounts used in the pricing report to derive the pre-negotiation cost objective. Such amounts should be the same as those used for burdening contract overhead or applying service/support center use charges. The base units-of-measure must agree with those used on the Form (s) CASB-CMF.

FACILITIES CAPITAL COST OF MONEY FACTORS (Col. 4). Carry forward the appropriate estimated Facilities Capital Cost of Money Factors from the Form(s) CASB-CMF. Business units, overhead pools and cost accounting periods must agree.

FACILITIES CAPITAL COST OF MONEY AMOUNT (Col. 5). The product of each Contract Overhead Allocation Base (Col. 3) multiplied by its related Facilities Capital Cost of Money Factor (Col. 4).

CONTRACT FACILITIES CAPITAL COST OF MONEY (Line 6). The sum of Col. 5. This represents the contract's allocable share of the business unit's estimated cost of money for the cost accounting period(s) impacted by the contract performance period. Therefore it represents a portion of the total(s) of Col. 5 of Form CASB-CMF.

FACILITIES CAPITAL COST OF MONEY RATE (Line 7). The same Cost of Money Rate used in Col. 1 of the Form(s) CASB-CMF. Only one rate will be used in the facilities capital estimating process regardless of the length of the contract performance period.

CONTRACT FACILITIES CAPITAL EMPLOYED (Line 8). The quotient of Line 6 divided by Line 7. This represents the contract's allocable share of the business unit's estimated facilities value for the cost accounting period(s) impacted by the contract. Therefore it represents a portion of the total(s) of Col. 4 of Form CASB-CMF.

11.4 UTILIZING DD FORM 1861

DD Form 1861, displayed as Figure 11-3, is the DOD equivalent to FAA Form 4220.34. Just as the FAA form does, DD 1861 provides a medium from which to calculate key inputs necessary for developing the Government negotiation position on COM and profit/fee.

DD Form 1861: Sections 1 through 6

DD Form 1861 consists of seven sections. Sections 1 through 5 require the input of general contract information. Section 6 of the form, Distribution of Facilities Capital Cost of Money, is divided into four columns: **Expense Pool**, **Allocation Base**, **COM Factor**, and **Total Amount**. The four columns correspond to information needed to calculate the cost of money objective.

Column 1: Expense Pool

The expense pool column provides for listing overhead and G&A pools in the same structure they appear on the contractor's cost proposal and the CASB-CMF Form. The structure and allocation base units-of-measure must be compatible on all three displays. Completing this column will enable the analyst to ensure that all pools are considered and that all cost of money factors correspond to the appropriate pool.

Column 2: Allocation Base

Allocation base values are taken from the contractor's cost proposal. The total amount of each allocation base (i.e. engineering, manufacturing or service labor and/or the G&A base) is entered into this column. When preparing a prenegotiation position, the analyst should incorporate base values from prenegotiation cost objectives. If more than one prenegotiation position exists, such as both a minimum and maximum position, separate forms need to be completed for each position.

Column 3: COM Factors

COM factors are obtained from the contractor's proposal or from corresponding data in the CASB-CMF Form(s). If a Government audit disputes the proposed factors, the analyst should incorporate the Government's recommended rates into the prenegotiation position.

Column 4: Total Amount

The cost of money for each pool is computed by multiplying the allocation base column by the COM factor column. These amounts are then summed to determine the total FCCOM applicable to the prenegotiation position. This value is entered into the row labeled **Total**. Once the total amount column has been summed, the value is divided by the treasury rate to determine the **Facilities Capital Employed** value.

DD Form 1861- Section 7

Section 7, Distribution of Facilities Capital Employed, provides the actual “link” between the DD Form 1861 and the DD Form 1547, as noted in Chapter 12, Profit/Fee. FAA is not required to use DOT’s or DOD’s forms for profit/fee calculation. However the use of one or the other is recommended to fulfill the requirement to develop a fee/profit position based on a structured approach. Because DOD’s forms for this purpose are used by most contractors and are supported by detailed guidance, they may be preferable to the DOT forms. This section facilitates the calculation of the profit objective under DOD’s Weighted Guidelines Analysis for determining profit or fee. This portion of DD Form 1861 consists of two columns: **Percentage** and **Amount**.

OBTAINING FACILITIES CAPITAL EMPLOYED PERCENTAGES

The percentages needed to compute the distribution of capital employed can be obtained in the following ways:

- **Contract Administration Offices.** A contractor’s contract administration offices expect a large number of negotiated contracts. In this instance, the percentages may be established through advance agreements.
- **Corporate Administration Offices.** The percentages may be obtained from the contractor’s corporate administration offices by interested administration or purchasing offices.
- **Solicitation Provision.** The Contracting Officer may request the information through a solicitation provision such as requiring the contractor to provide DD Form 1861 with the applicable percentages when submitting a proposal.
- **Audit Findings.** Often, a Government audit of a contractor’s proposed costs or rates will provide a recommended distribution of the percentages.

Column 1: Percentage

The first column, **Percentage**, refers to the overall percentage of NBV dollars that are invested in that type of facility. The percentage of facilities is apportioned between land, buildings, and equipment and must total 100% when summed together. For example, the percentages between land, buildings, and equipment could be assigned as follows:

Column 2: Amount

| | | |
|-------------|-----|--|
| Land = | 5% | |
| Buildings = | 45% | <i>(When summed, percentages equal 100%)</i> |
| Equipment = | 50% | |

These percentages are then multiplied by the total **Facilities Capital Employed** calculated in Section 6. The resulting values for land, buildings, and equipment are entered into the **Amount** column. This process serves to assign a value to each type of facility which is equal to the overall percentage of the contractor's NBV invested in that type of facility.

As with the FAA form, the contracting officer should recreate the contractor's value for COM when restating the contractor's position and should result in the value proposed by the contractor. COM as calculated by the contracting officer for the FAA position, however, must reflect FAA objectives for each pool listed and for each year proposed, applicable cost of money factors, and the applicable Treasury rates as published by the Department of Treasury.

11.5 SUMMARY

In short, Contractors may recoup a little of investment in business through COM. Reference CAS 414. The government recognizes these COM costs as "real" and attempts to compensate the contractor in a "fair and reasonable" manner.