VOLUME 6B, CHAPTER 11: “REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION REPORTING”

SUMMARY OF MAJOR CHANGES

All changes are 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 November 2011 is archived.

<table>
<thead>
<tr>
<th>PARAGRAPH</th>
<th>EXPLANATION OF CHANGE/REVISION</th>
<th>PURPOSE</th>
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</thead>
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<tr>
<td>110102</td>
<td>Renamed paragraph as Authoritative Guidance in accordance with current administrative instructions.</td>
<td>Revision</td>
</tr>
<tr>
<td>110203.C</td>
<td>Clarified existing guidance regarding reporting Required Supplementary Stewardship Information (RSSI) based on expenses versus outlays per Statement of Federal Financial Accounting Standards (SFFAS) 8.</td>
<td>Revision</td>
</tr>
<tr>
<td>110302.B</td>
<td>Clarified existing guidance regarding reporting RSSI based on expenses versus outlays per SFFAS 8.</td>
<td>Revision</td>
</tr>
<tr>
<td>110401</td>
<td>Clarified existing guidance to indicate that not all Research, Development, Testing, and Evaluation costs should be listed in RSSI; only those that meet the RSSI criteria per SFFAS 8 should be listed.</td>
<td>Revision</td>
</tr>
<tr>
<td>110402</td>
<td>Clarified existing guidance regarding reporting RSSI based on expenses versus outlays per SFFAS 8.</td>
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CHAPTER 11

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION REPORTING

1101 GENERAL

110101. Purpose

This chapter provides the Department of Defense (DoD) guidance and instructions for preparing and reporting Required Supplementary Stewardship Information (RSSI). The stewardship objective of federal financial reporting requires DoD to report on its stewardship over certain resources entrusted to it and certain responsibilities assumed by it that cannot be measured in traditional financial reports. These resources and responsibilities do not meet the criteria for assets and liabilities that are required to be reported in the financial statements, but are important to understanding the operations and financial condition of DoD at the date of the financial statements and in subsequent periods.

*110102. Authoritative Guidance

All federal agencies are required to report RSSI per Office of Management and Budget Circular A-136, “Financial Reporting Requirements.” Additional RSSI reporting guidance may be found in Statement of Federal Financial Accounting Standards (SFFAS) 8, “Supplementary Stewardship Reporting.”

1102 STEWARDSHIP INVESTMENTS

110201. Description

Stewardship investments are substantial investments made by DoD for the benefit of the nation, but are not physical assets owned by DoD. These items merit special treatment so that users of DoD’s financial reports know the extent of investments made for long-term benefit.

110202. Measurement

Stewardship investments are comprised of and measured in terms of expenses incurred for: (1) federally-financed, but not federally owned physical property (Nonfederal Physical Property); (2) certain education and training programs (Human Capital); and (3) federally-financed research and development (Research and Development).

*110203. Minimum Reporting Requirements

Figure 11-1 provides a summary of DoD’s minimum reporting requirements for investments in Nonfederal Physical Property and Research and Development. DoD is not required to report Human Capital investments. More detailed reporting requirements for Nonfederal Physical Property and Research and Development are discussed in sections 1103 and 1104, respectively.
11-4

A. The costs associated with stewardship investments are treated as expenses in the financial statements in the year the costs are incurred. Depending on the nature of the resources, stewardship reporting could consist of financial or nonfinancial data.

B. Existing DoD financial systems are, for the most part, not yet capable of fully supporting Generally Accepted Accounting Principles (GAAP) reporting requirements for RSSI. GAAP requires RSSI to be reported at the full cost of the annual investment in Nonfederal Physical Property and Research and Development. Full cost as defined by SFFAS 8 includes appropriate accrual adjustments, general and administrative overhead, and a share of the cost of facilities.

* C. In some cases, in accordance with SFFAS 8, paragraph 87, DoD reporting entities will report RSSI on the basis of annual outlays rather than expenses. This occurs when records are maintained on the basis of outlays, and it is not cost effective to reconstruct the accounts on the basis of expense information.

1103 NONFEDERAL PHYSICAL PROPERTY

110301. General

Nonfederal Physical Property investments are expenses included in calculating net cost incurred by the reporting entity for the purchase, construction, or major renovation of physical property owned by state and local governments. Include costs identified for major additions, alterations and replacements, purchases of major equipment, and purchases or improvements of other nonfederal assets. RSSI reporting of Nonfederal Physical Property will include federally owned physical property transferred to state and local governments. Grants for maintenance and operations are not considered investments for the purposes of RSSI reporting.

*110302. Reporting Requirements

A. Annual RSSI reporting of Nonfederal Physical Property will be provided for the current fiscal year (CFY) and each of the four preceding fiscal years. Reporting of data for additional years is encouraged if such data would provide a better indication of investment. Annual RSSI reporting of Nonfederal Physical Property will include a description of federally owned physical property transferred to state and local governments.

* B. In some cases, the required information is not available because DoD Components have maintained records on the basis of outlays rather than expenses. It may not be cost effective to reconstruct their accounts on the basis of expense data. Derive the investment in Nonfederal Physical Property costs reflected in this report from alternative financial sources of the highest quality. DoD Components will continue to report historical data on an outlay basis for any years for which expense data are not available or not cost effective to obtain. See subparagraph 110203.C.

C. Reporting will be at a meaningful category or program level. The report format shown in Figure 11-2 identifies General Property, Plant, and Equipment (PP&E) as the
most probable category. Additional information may be provided in the narrative statement accompanying the Nonfederal Physical Property information if the costs are significant and warrant individual disclosure.

D. Reporting will include a description of the categories or programs involving investments in Nonfederal Physical Property, as well as a description of programs or policies under which non-cash assets are transferred to state and local governments.

110303. Reporting Format

Disclose the Nonfederal Physical Property information in the report format found in Figure 11-2. The columns in the report will provide the following information:

A. Column (a). Classify assets as either transferred or funded. Transferred assets are assets that had a physical existence (e.g., buildings or land), and were subsequently transferred to state and local governments. Funded assets result from DoD payments used to acquire assets (e.g., funding the acquisition of an armory).

B. Columns (b), (c), (d), (e), and (f). Report the investments in physical property owned by state and local governments by fiscal year. Express reported amounts in millions of dollars and represent costs incurred for that fiscal year column only. Investments in Nonfederal Physical Property are not reported on a cumulative basis. Report the investments for the CFY in column (b). The four preceding fiscal years should be reported in the following sequence: column (c) will contain investments from the prior fiscal year (CFY-1); column (d) will contain investments from (CFY-2); column (e) will contain investments from (CFY-3); and column (f) will contain investments from (CFY-4).

C. Narrative Statement. A narrative statement must be included in the report and contain a description of the categories and programs. Include in the statement a description of programs or policies under which non-cash assets are transferred to state and local governments. When the value of the assets differs materially from the expense reported, the narrative statement will address this difference. For example, discuss material differences between the fair market value and historical cost of base closure assets.

D. Statement of Systems Limitations. Include the following verbatim statement if system limitations require use of outlay (expenditure) data: “Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the GAAP requirements.”

1104 RESEARCH AND DEVELOPMENT

*110401. General

Investments in research and development are incurred in the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the
development of new or improved products and processes, with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. DoD uses Research, Development, Testing, and Evaluation (RDT&E) budget activities to fulfill the reporting requirements for Research and Development RSSI. Not all RDT&E costs should be listed in RSSI; only those that meet RSSI criteria should be listed. The RDT&E budget activities are broad categories reflecting different types of RDT&E efforts described in Volume 2B, Chapter 5.

*110402. Reporting Requirements

A. DoD Components must report RDT&E investments for the fiscal year ending in this reporting period, as well as the investments in the four preceding fiscal years. Reporting of data for additional years is encouraged if such data would provide a better indication of the investment.

B. In some cases, the required information is not available because DoD Components have maintained records on the basis of outlays rather than expenses. It may not be cost effective to reconstruct their accounts on the basis of expense data. Derive Research and Development RSSI costs reflected in this report from alternative financial sources of the highest quality. DoD Components will continue to report historical data on an outlay basis when expense data are not available or not cost effective to obtain. See subparagraph 110203.C.

C. If outlay (expenditure) data is used due to system limitations, Research and Development RSSI costs must be derived from RDT&E outlays reported in the budget execution reports entitled “Appropriation Status by FY Program and Subaccounts (Accounting Report (Monthly) 1002).” Volume 6A, Chapter 4 contains the format of this report. Costs for each year must represent total outlays (expenditures) against all outstanding appropriations paid during the reporting period.

110403. Reporting Format

Present Research and Development information in the report format of Figure 11-3. The columns in the report will provide the following information:

A. Column (a). List the Research and Development RSSI categories and subcategories in the same order described in subparagraph 110403.C. Additional meaningful category or program information may be provided in the narrative statement when appropriate.

B. Columns (b), (c), (d), (e), and (f). Express reported amounts in millions of dollars and represent costs incurred only for that fiscal year column. Investments in research and development are not reported on a cumulative basis. Report the investments for the CFY in column (b). The four preceding fiscal years should be reported in the following sequence: column (c) will contain investments from the prior fiscal year (CFY-1); column (d) will contain investments from (CFY-2); column (e) will contain investments from (CFY-3); and column (f) will contain investments from (CFY-4).
C. Narrative Statement. A statement will be included in the report following the
1. The following verbatim statements explaining each type of Research and Development Category (in compliance with SFFAS 8) and Subcategory must be included in the report:

a. “Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.”

b. “Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include non-system specific development efforts.”

c. “Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five subcategories:

(1) Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. This subcategory employs demonstration activities intended to prove or test a technology or method.

(2) Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

(3) System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

(4) Research, Development, Test and Evaluation Management Support is support for installations and operations for general research and
development use. This subcategory includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the Research and Development program.

(5) Operational System Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.”

2. The report must include a description of significant accomplishments for no more than two programs in each (if resourced) of the three major categories (Basic, Applied, and Development) for a maximum of six program descriptions. The programs selected for discussion should be significant in terms of the use of resources, have significant visibility, and have a high impact to the war fighter. As an introductory statement, the following disclosure should be included verbatim: “The following are representative program examples for the above major categories.”

3. Outputs or outcomes must be reported as follows depending upon availability:

a. Output. When available, significant and substantial scientific outputs will be presented as a tabulation, calculation, or recording of activity or effort that can be expressed in an aggregated and brief quantitative or qualitative manner. Outputs will have two key characteristics: (a) an output will be systematically or periodically captured through an accounting or management information system, and (b) there will be a logical connection between the reported measure and purpose of the RDT&E program. In RDT&E programs, this could consist of data for the year concerning the number of new projects initiated, the number continued from the prior year, the number completed, and the number terminated. It also could consist of such quantitative measures as bibliometrics (e.g., publication counts, citation counts and analysis, and peer evaluation), patent counts and analysis, and science indicators that assess the ongoing vitality of the research.

b. Outcome. When available, present outcomes in an aggregated and brief manner as an assessment of the results of a program compared to its intended purpose. Because of the difficulty of measuring the results of research and development programs in financial, economic, or quantitative terms, outcome data for such programs will consist of a narrative discussion of the major results achieved by the program during the year. Outcome information must be concisely written in a plausible manner for judging the extent to which the program is achieving its purpose.
Figure 11-1. Summary of Minimum Stewardship Reporting Requirements

<table>
<thead>
<tr>
<th>INFORMATION REPORTED</th>
<th>NONFEDERAL PHYSICAL PROPERTY</th>
<th>RESEARCH AND DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Annual investment by category or level *</td>
<td>Include full cost of the investment made for the current year, including description of federal property transferred to state and local governments, and the preceding 4 years. Report additional years of data if it provides a better indication of investment.</td>
<td>Include full cost of the investment made for the current year and the preceding 4 years. Report additional years of data if it provides a better indication of investment.</td>
</tr>
<tr>
<td>2. Description of major programs</td>
<td>Describe major programs involving federal investments, including description of programs or policies under which non-cash assets are transferred to state and local governments.</td>
<td>Describe major Research and Development programs.</td>
</tr>
</tbody>
</table>

* The DoD Components will continue to report historical data on an outlay basis for any years for which reporting is required and for which expense data are not available.
## Nonfederal Physical Property Format

### NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in Physical Property Owned by State and Local Governments
For the Current and Four Preceding Fiscal Years
(In Millions of Dollars)

<table>
<thead>
<tr>
<th>Categories</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>(e)</th>
<th>(f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CFY</td>
<td>CFY-1</td>
<td>CFY-2</td>
<td>CFY-3</td>
<td>CFY-4</td>
<td></td>
</tr>
<tr>
<td>Transferred Assets:</td>
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<tr>
<td>1. General PP&amp;E</td>
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<tr>
<td>Funded Assets:</td>
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<td>2. General PP&amp;E</td>
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<td>Total</td>
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</tbody>
</table>
Figure 11-3. Research and Development Format

<table>
<thead>
<tr>
<th>Categories</th>
<th>(b) CFY</th>
<th>(c) CFY-1</th>
<th>(d) CFY-2</th>
<th>(e) CFY-3</th>
<th>(f) CFY-4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Research</td>
<td></td>
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<tr>
<td>Applied Research</td>
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<tr>
<td>Development</td>
<td></td>
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</tr>
<tr>
<td>a) Advanced Technology Development</td>
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<tr>
<td>b) Advanced Component Development and Prototypes</td>
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<tr>
<td>c) System Development and Demonstration</td>
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<tr>
<td>d) Research, Development, Test and Evaluation Management Support</td>
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<tr>
<td>e) Operational System Development</td>
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<tr>
<td>Totals</td>
<td></td>
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