



Federal Accounting Standards Advisory Board

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April 22, 2005

To: Members of the Board

From: Melissa Loughan, Assistant Director

Through: Wendy Comes, Executive Director

SUBJ: Stewardship Investments Project<sup>1</sup>- **Tab G**

This tab contains information for the introduction of the Stewardship Investments Project which relates to the reclassification of Stewardship Investments information that is now currently classified as RSSI. This project evolved as part of the Board's overall project of reviewing and reclassifying the stewardship elements to fit the categories within the traditional reporting model. The Stewardship Investments category (which includes Nonfederal Physical Property, Human Capital, and Research and Development) covers the remaining RSSI elements.

**INFORMATION INCLUDED IN MAY 2005 BOARD MEETING BINDER**

**Tab 1:** Introductory Paper and Background Information

**Tab 2:** Stewardship Investments Project Plan

**Tab 3:** Staff proposed Survey on Stewardship Investments

**Tab 4:** Excerpts from SFFAS 8 *Supplementary Stewardship Reporting* Related to Stewardship Investments

**Tab 5:** Excerpts from OMB's *Analytical Perspectives, Budget of the United States, Fiscal Year 2006*

**Tab 6:** Sample Stewardship Report Excerpts for Stewardship Investments

**OBJECTIVES FOR THE MAY 2005 BOARD MEETING**

1. Discuss background information, current requirements and sample reports.
2. Obtain initial thoughts from the Board (see page 7 of Tab 1, Introductory Paper and Background Information for list of questions) and confirm the scope of the project.
3. Specifically determine if the Board does want to move forward with a staff proposed survey and if so, discuss the survey drafted by staff.

Please feel free to contact me on 202-512-5976 or by email at [loughanm@fasab.gov](mailto:loughanm@fasab.gov) to discuss any questions you may have.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

# Introductory Paper and Background Information Stewardship Investments Project

## Required Supplementary Stewardship Information

The required supplementary stewardship information (RSSI) category, as described in Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, was a response to the unique aspects of the Federal accounting and reporting environment, and to the broad objectives of Federal financial reporting. It was intended to permit flexibility on the part of preparers and auditors that would facilitate reporting relevant, reliable information, including non-financial and non-historical information.

In SFFAS 8, the Board described stewardship information and required the reporting of that information. When the Board established the RSSI category, it believed that the new category was needed to highlight the unique nature of the reported items, to accommodate non-financial data, and to allow for reporting experimental information. The Board believed that as agencies gained experience in reporting stewardship information that the reporting would evolve to a level where there was consistency within categories and at the government-wide consolidated reporting level.

Although some stewardship information may not link directly with the basic financial statements because the data to be reported may be other than in dollar terms, the Board intended that RSSI information would augment the basic financial statements and would receive commensurate audit scrutiny.

The Board found, however, that in many cases the word “supplementary” in the RSSI title caused certain readers to assume that the information was of secondary importance. Since this was contrary to its intentions, the Board decided to eliminate the RSSI category and re-categorize the stewardship elements within the reporting categories that are well defined in existing professional literature and familiar to report users. Avoiding the use of the RSSI category will eliminate some potential confusion and ambiguity.

The chart below details the Board’s progress on eliminating the RSSI elements by detailing the Stewardship Category, Specific RSSI Elements and Disposition. As the Board will note, the only remaining Stewardship Category is Stewardship Investments. This particular project will address the appropriate categorization of the final stewardship category--Stewardship Investments, which includes Nonfederal Physical Property, Human Capital, and Research and Development.

## Summary Chart of RSSI Elements and Status

Stewardship Category	Specific RSSI Element	Disposition
Stewardship Property, Plant & Equipment	1. Heritage Assets	Basic <sup>2</sup> Condition Reporting-RSI
	2. National Defense PP&E <sup>3</sup>	Basic <sup>4</sup>
	3. Stewardship Land	Basic <sup>5</sup> Condition Reporting-RSI
Stewardship Investments	1. Nonfederal Physical Property	RSSI
	2. Human Capital	RSSI
	3. Research and Development	RSSI
Stewardship Responsibilities	1. Current Services Assessment	Eliminated <sup>6</sup>
	2. Risk Assumed	RSI <sup>7</sup>
	3. Social Insurance	SOSI—Basic Other SI required by SFFAS 17—RSI <sup>8</sup>

<sup>2</sup> SFFAS 29, *Heritage Assets and Stewardship Land* reclassifies heritage asset and stewardship land information as basic, except for condition reporting which is classified as RSI. SFFAS 29 has been submitted for review to the sponsors and Congress. Absent an objection, the standard will be final in July 2005. SFFAS 29 includes a phased-in implementation for reclassification of information as basic, such that the standard will be fully implemented for reporting periods beginning after September 30, 2008. Information that is provided an exception to being reported as basic during the phase-in period is still required, but should be reported as RSI until the exceptions expire.

<sup>3</sup> SFFAS 11, *Amendments to Accounting for Property, Plant & Equipment-Definitional Changes* replaced the category name 'Federal mission property, plant, and equipment' with 'national defense property, plant, and equipment'.

<sup>4</sup> SFFAS 23, *Eliminating the Category "National Defense Property, Plant, and Equipment"* rescinded the term National Defense PP&E and categorized previously considered ND PP&E as general PP&E.

<sup>5</sup> See footnote 2 for explanation of SFFAS 29, *Heritage Assets and Stewardship Land*.

<sup>6</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, eliminated CSA reporting for periods beginning after September 30, 2002.

<sup>7</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* reclassified risk assumed information as RSI for reporting periods beginning after September 30, 2002.

<sup>8</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment* (as amended by SFFAS 28, *Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26*) reclassified the Statement of Social Insurance as basic financial statement for periods beginning after September 30, 2005 and other social insurance information required by SFFAS 17 as RSI for periods beginning after September 30, 2005.

**Stewardship Investments**

As discussed in SFFAS 8, "Stewardship investments" are substantial investments made by the Federal Government for the benefit of the nation. When incurred, they are treated as expenses in determining the net costs of operations. The chart below provides a detailed summary--including the description, measurement, and minimum reporting requirements, for each of the elements within the Stewardship Investments Category--Nonfederal Physical Property, Human Capital, and Research and Development.

Element	Description	Measurement	Minimum Reporting Requirements
<p><b>Nonfederal Physical Property</b></p>	<p>Investments in nonfederal physical property refers to those expenses incurred by the Federal Government for the purchase, the construction, or the major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets.<sup>9</sup></p>	<p>-Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</p> <p>-Cash grants related to nonfederal physical property programs are recognized and reported as expenses in arriving at the net cost of operations.</p> <p>-Expenses incurred for program costs, contracts, or grants with split purposes<sup>10</sup> are reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</p>	<p>-Annual investment,<sup>11</sup> including a description of Federally-owned physical property transferred to state and local governments, provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>12</sup></p> <p>-Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</p> <p>-Description of major programs involving Federal investments in nonfederal physical property including a description of programs or policies under which non-cash assets are transferred to state and local governments.</p> <p><u>Recommended Reporting</u></p> <p>-Reporting of significant state and local total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</p>

<sup>9</sup> Grants for maintenance and operations are not considered investments.

<sup>10</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a state to construct segments of the National Highway System and to conduct highway research.

<sup>11</sup> Annual investment is the full cost of the investment and should be measured in accordance with SFFAS 4.

<sup>12</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.

Element	Description	Measurement	Minimum Reporting Requirements
<p><b>Human Capital</b></p>	<p>Investments in human capital refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.<sup>13</sup></p>	<p>- Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</p> <p>-Expenses incurred for program costs, contracts, or grants with split purposes<sup>14</sup> shall be reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</p> <p>-Managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available, output data that best provide indications of the intended program outcomes should be used to justify continued treatment of expenses as investments until outcome data are available.</p>	<p>-Annual investment provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>15</sup></p> <p>- Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</p> <p>-Narrative description of major education and training programs.</p> <p><u>Recommended Reporting</u></p> <p>-Reporting of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</p>

<sup>13</sup> This excludes education and training expenses of Federal civilian and military personnel. It also excludes education and training expenses whose purpose is not maintaining or enhancing national productive capacity.

<sup>14</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

<sup>15</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.

Element	Description	Measurement	Minimum Reporting Requirements
<p><b>Research and Development</b></p>	<p>Investment in research and development refers to those expenses incurred to support 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 productive capacity or yielding other future benefits. Research and development is composed of basic research, applied research, and development.</p>	<ul style="list-style-type: none"> <li>- Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</li> <li>-Expenses incurred for program costs, contracts, or grants with split purposes<sup>16</sup> shall be reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</li> <li>- Managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available, output data that best provide indications of the intended program outcomes should be used to justify continued treatment of expenses as investments until outcome data are available.</li> </ul>	<ul style="list-style-type: none"> <li>-Annual investment provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>17</sup></li> <li>- Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</li> <li>-Narrative description of major research and development programs.</li> </ul> <p><u>Recommended Reporting</u></p> <ul style="list-style-type: none"> <li>-Reporting of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</li> </ul>

<sup>16</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

<sup>17</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.

## **Performance Measurement**

In recent years, there has been increased emphasis on improving the performance of Government programs. For example, the Government Performance and Results Act of 1993 began to require agencies to prepare annual performance plans and then report on their actual performance results annually.

In SFFAS 8, the Board did incorporate this performance notion by providing that managers of the investment programs should be able to provide information on the outcomes for the programs for which the investments are reported. SFFAS 8 provided further that if outcome data are not available, output data that best provide indications of the intended program outcomes should be used to justify continued treatment of expenses as investments until outcome data are available.

More recently, the Administration began (in the 2004 Budget) to assess Federal programs by a method known as the Program Assessment Rating Tool (PART). The Administration set a target of assessing all Federal programs over five years. The PART system assesses each program in four components--purpose, planning, management, and results/accountability--and gives a score for each of the components. The scores for each component are weighted and the program is given an overall score. A program is rated effective if it receives an overall score of 85 percent or more, moderately effective if the score is 70 to 84 percent, adequate if the score is 50 to 69 percent, and inadequate if the score is 49 percent or lower. The program receives a rating "Results Not Demonstrated" if it does not have a good long-term and annual performance measure or does not have data to report on its measures.

Staff would like to point out that Tab 5 contains excerpts from OMB's *Analytical Perspectives, Budget of the United States, Fiscal Year 2006*. In particular, Chapter 6, Federal Investments, addresses Performance of Federal Investments. There is a table in part II of that chapter 6 that addresses the results of the PART for direct investment programs.

Additionally, chapter 7, Research and Development, contains a detailed discussion on improving the performance of R&D programs. The chapter discusses the importance of effectively investing R&D dollars and the use of R&D investment criteria and the effect of overall performance. It further explains that as directed by the President's Management Agenda, the R&D Investment Criteria accommodate the wide range of R&D activities by addressing three fundamental aspects of R&D: Relevance (Programs must be able to articulate why they are important); Quality (Programs must justify how funds will be allocated to ensure quality); and Performance (Programs must be able to monitor and document how well the investments are performing). The chapter further details that a section of the PART specifically addresses the assessment of R&D program management and performance and is aligned with the R&D Investment Criteria. It notes that in the last three years, agencies have completed PART assessments of 84 R&D programs.

## **Questions for the Board**

1. Does the Board agree to move forward on the Stewardship Investments Project? If so, should the scope of the project be limited to the reclassification of Stewardship Investments, which includes Nonfederal Physical Property, Human Capital, and Research and Development?
  
2. Considering that there are potentially other reports (or assessments) that may be capturing similar information on Stewardship Investments, staff believes it may be helpful to conduct a survey on Stewardship Investments.
  - a. Does the Board believe that a survey should be conducted?
  - b. If so, does the Board have comments on the staff proposed survey?
  - c. The results of the survey may reveal that the information currently reported as Stewardship Investments may be reported elsewhere which may support certain views to eliminate the information. Alternatively, this could support other views that the information should continue to be reported (which would be consistent with other government-wide initiatives) and perhaps lead to initiating an overall project in the Performance Reporting area. Does the Board have initial thoughts on these two views?
  
3. As deliberations on this project could be seen dependent upon the Board's deliberations in the Objectives Project, does the Board foresee any problems moving forward with the Stewardship Investments Project?
  
4. Does the Board have initial views on the reclassification of the elements within the Stewardship Investments category which includes (staff notes that each element will be looked at separately in determining the classification):
  - a. Nonfederal Physical Property?
  - b. Human capital?
  - c. Research and Development?
  
5. If the Board does move forward with the reclassification of Stewardship Investments, this will result in the reclassification of the remaining RSSI. Does the Board wish to eliminate RSSI as part of this project or allow the category to remain although all information has been reclassified?

## Stewardship Investments Project Plan

### Primary Objective:

SFFAS 8 requires reporting of Stewardship Investments, which includes Nonfederal Physical Property, Human Capital, and Research and Development. As described in SFFAS 8, required supplementary stewardship information (RSSI) is a category created by FASAB as a response to the unique aspects of the Federal accounting and reporting environment, and to the broad objectives of Federal financial reporting. It was intended to permit flexibility on the part of preparers and auditors that would facilitate reporting relevant, reliable information, including non-financial and non-historical information.

The audit status of RSSI was not designated and the Board found that in many cases, the word “supplementary” in the RSSI title caused certain readers to assume that the information was of secondary importance. Since this was contrary to its intentions, the Board decided to eliminate the RSSI category and re-categorize the stewardship elements within the traditional reporting model and within categories that are well defined in existing professional literature and familiar to report users. Avoiding the use of the RSSI category will eliminate some potential confusion and ambiguity. (If this effort leads to reclassification of all items in the RSSI category, the Board will ultimately eliminate the category.)

This particular project addresses the appropriate categorization of the final stewardship category--Stewardship Investments, which includes Nonfederal Physical Property, Human Capital, and Research and Development. Specifically, the Board will assess whether the information reported for each element of Stewardship Investments should be reclassified as basic information (which includes the principal financial statements and associated notes) or required supplementary information (RSI). There is also the option that perhaps the Board may determine that certain information may no longer be required and should be eliminated.

### Scope of Project:

Re-evaluate the Stewardship Investments and determine the appropriate categorization of Nonfederal Physical Property, Human Capital, and Research and Development information.

## **Proposed Actions and Milestone Dates:**

### **April 2005- June 2005**

#### **Project Initiation & Planning**

- Prepare background information, including current requirements and sample reports
- Obtain input from Board on approach--Specifically, determine whether a survey should be conducted.
- Identify additional issues from Board
- Confirm understanding of project objective and scope
- Summarize issues related to Stewardship Investments
- Research pertinent Non-federal literature for related guidance
- Determine specific groups or individuals the Board may want to hear from or include in certain aspects of the project

### **July 2005- March 2006**

#### **Staff Analysis and Recommendations**

- Continue to gather and analyze information regarding reporting practices and information reported elsewhere
- Conduct a survey regarding current reporting practices
- Summarize and analyze results from the survey
- Develop issues and options for deliberation by the Board
- Consider reporting requirements at the government-wide level
- Consider whether Board wants to eliminate RSSI as part of this project
- Develop draft exposure draft (ED)
- Work with Board on finalizing ED

### **April 2006- July 2006**

#### **Issue ED and Request for Comments**

- Issue ED for comments
- Consolidate comments and summarize for the Board's consideration

### **August 2006- December 2006**

#### **Consideration of Comments and Finalization of Standard--Due Process**

- Determine if public hearing is necessary
- Determine appropriate revisions to the proposed standard based on comments and public hearing and further deliberations
- Finalize a ballot draft and vote

### **January 2007- March 2007**

- Following a majority vote, send to Sponsors and CBO for 90-day review.

### **April 2007**

- Issue final standard



May 10, 2005

Memorandum

To: Chief Financial Officers and Inspector Generals of Executive Departments

From: Wendy M. Comes  
Executive Director

Subj: Survey on Stewardship Investments

The Federal Accounting Standards Advisory Board (FASAB) has initiated a project that will reclassify Stewardship Investments information. Stewardship Investments are substantial investments made by the Federal Government for the benefit of the nation. Statement of Federal Financial Accounting Standards (SFFAS) 8 requires reporting of Stewardship Investments, which includes Nonfederal Physical Property, Human Capital, and Research and Development, as required supplementary stewardship information (RSSI).

As described in SFFAS 8, RSSI is a category created by FASAB and its audit status was not designated. RSSI was intended to provide for reporting information that, at the time, the Board did not believe should be reported on the face of the primary financial statements or the notes thereto but were, nonetheless, important to an understanding of the operations and financial condition of the Federal Government. The Board decided to review and re-categorize the stewardship elements in the Federal financial model to fit the reporting categories identified in the traditional reporting model.

Prior to deliberating on the reclassification of Stewardship Investments information, the Board asked that staff gather more information on the current reporting practices and solicit input from federal financial statement preparers and auditors. As part of staff research, FASAB staff would like to request that the CFO and IG communities complete a brief survey that relates to this area. One particular area of focus is on whether the information that is now required as Stewardship Investments is reported elsewhere.

The Survey on Stewardship Investments is included as Attachment A. We request that your responses be forwarded by **TO BE DETERMINED, APPROXIMATELY ONE MONTH AFTER SURVEY IS SENT OUT**. Also attached for your consideration in responding to the Survey is the pertinent excerpt from SFFAS 8 for Stewardship Investments (Attachment B.)

Please feel free to contact myself on 202-512-7357 or Melissa Loughan on 202-512-5976 to discuss any questions you may have. Responses may be emailed to [loughanm@fasab.gov](mailto:loughanm@fasab.gov) or faxed to 202-512-7366. Thank you for your time and assistance.

Attachment

## **Survey on Stewardship Investments**

### **Nonfederal Physical Property**

1. Does your entity have Investments in Nonfederal Physical Property as defined by SFFAS 8? If no, please skip to the Human Capital section of the survey.
2. Does your entity report the annual Investments in Nonfederal Physical Property as required by SFFAS 8 (for the year ended as well as in each of the 4 years preceding)?
3. Are the annual investments reported based on expense data? If not, what basis is used?
4. Does your entity report the Investments by “major programs” and include a narrative description? If so, how many “major programs” were included?
5. Do the programs (identified in the previous question) specifically tie or relate to other information in the Performance and Accountability Report (PAR), such as a program in the Management Discussion and Analysis (MD&A), performance information details, or a program on the Statement of Net Cost?
6. SFFAS 8 encourages (but is not required) reporting of the amount of significant state and local total contributions to shared or joint programs. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) should be reported even if the exact amount of the contribution is not known. Does your entity report this type of information? If not, please explain why your entity does not report this information.
7. Does your entity report information on Investments in Nonfederal Physical Property in any other report? If yes, please identify the report and the type of information presented. Is the information in the other reports consistent with what is reported for Investments in Nonfederal Physical Property as required by SFFAS 8?
8. Please provide any other additional comments on current practices or other concerns that should be considered about Investments in Nonfederal Physical Property.

**Human Capital**

1. Does your entity have Investments in Human Capital as defined by SFFAS 8? If no, please skip to the Research and Development section of the survey.
2. Does your entity report the annual Investments in Human Capital as required by SFFAS 8 (for the year ended as well as in each of the 4 years preceding)?
3. Are the annual investments reported based on expense data? If not, what basis is used?
4. Does your entity report the Investments by “major education and training programs” and include a narrative description? If so, how many “major programs” were included?
5. Do the programs (identified in the previous question) specifically tie or relate to other information in the PAR, such as a program in the MD&A, performance information details, or a program on the Statement of Net Cost?
6. SFFAS 8 encourages (but is not required) reporting of the amount of significant state, local, private, or foreign total contributions to shared or joint programs. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) should be reported even if the exact amount of the contribution is not known. Does your entity report this type of information? If not, please explain why your entity does not report this information.
7. Does your entity report information on Investments in Human Capital in any other report? If yes, please identify the report and the type of information presented. Is the information in the other reports consistent with what is reported for Investments in Human Capital as required by SFFAS 8?
8. Does your entity provide information on the outcomes to justify expenses for the programs for which the Investments in Human Capital are reported? Does your entity provide information on output data to justify expenses for the programs for which the Investments in Human Capital are reported?
9. Are the outcome and/or output information and results used to determine continued investment in the programs?

10. Are the outcome or output data identified above reported elsewhere in the PAR, such as in the Performance section? If yes, please identify where in the PAR. Is the information consistent with what is reported for the outcome and/or output data included in RSSI for the Investments in Human Capital?
11. Are the outcome or output data identified above reported in any other report prepared by the entity or part of any reviews or assessments, such as the OMB Program Assessment Rating Tool (PART)? If yes, please identify the report. Is the information consistent with what is reported for the outcome and/or output data included in RSSI for the Investments in Human Capital?
12. Please provide any other additional comments on current practices or other concerns that should be considered about Investments in Human Capital.

### **Research and Development**

1. Does your entity have Investments in Research and Development as defined by SFFAS 8? If no, this is the end of the survey.
2. Does your entity report the annual Investments in Research and Development as required by SFFAS 8 (for the year ended as well as in each of the 4 years preceding)?
3. Are the annual investments reported based on expense data? If not, what basis is used?
4. Does your entity report the Investments by “major research and development programs” and include a narrative description? If so, how many “major programs” were included?
5. Do the programs (identified in the previous question) specifically tie or relate to other information in the PAR, such as a program in the MD&A, performance information details, or a program on the Statement of Net Cost?
6. SFFAS 8 encourages (but is not required) reporting of the amount of significant state, local, private or foreign total contributions to shared or joint programs. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) should be reported even if the exact amount of the contribution is not known. Does your entity report this type

- of information? If not, please explain why your entity does not report this information.
7. Does your entity report information on Investments in Research and Development in any other report? If yes, please identify the report and the type of information presented. Is the information in the other reports consistent with what is reported for Investments in Research and Development as required by SFFAS 8?
  8. Does your entity provide information on the outcomes to justify expenses for the programs for which the Investments in Research and Development are reported? Does your entity provide information on output data to justify expenses for the programs for which the Investments in Research and Development are reported?
  9. Are the outcome and/or output information and results used to determine continued investment in the programs?
  10. Are the outcome or output data identified above reported elsewhere in the PAR, such as in the Performance section? If yes, please identify where in the PAR. Is the information consistent with what is reported for the outcome and/or output data included in RSSI for the Investments in Research and Development?
  11. Are the outcome or output data identified above reported in any other report prepared by the entity or part of any reviews or assessments, such as the OMB Program Assessment Rating Tool (PART)? If yes, please identify the report. Is the information consistent with what is reported for the outcome and/or output data included in RSSI for the Investments in Research and Development?
  12. Please provide any other additional comments on current practices or other concerns that should be considered about Investments in Research and Development.

## Excerpts from SFFAS 8 *Supplementary Stewardship Reporting* Chapters Related to Stewardship Investments

### Chapter 5 Nonfederal Physical Property Standard

#### Nonfederal Physical Property

Expenses included in calculating net cost for nonfederal physical property programs shall be reported as investments in required supplementary stewardship information accompanying the financial statements of the Federal Government and the separate reports of component units of the Federal Government responsible for such investments. Reporting will include data, in nominal dollars, on investment for the year being reported upon and the preceding 4 years. Additional years' data also may be reported if such data would provide a better indication of the nature of the investment.

#### Definition

- 83 "Investment in nonfederal physical property" refers to those expenses incurred by the Federal Government for the purchase, the construction, or the major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. Grants for maintenance and operations are not considered investments.

#### Measurement

- 84 "Expenses incurred" - The financial investment shall be measured on the same basis of accounting as used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and costs of facilities.<sup>18</sup> Amounts shall be reported in nominal dollars.
- 85 Cash grants related to nonfederal physical property programs are recognized and reported as expenses in arriving at the net cost of operations.
- 86 Expenses incurred for program costs, contracts, or grants with split purposes<sup>19</sup> shall be reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment shall be reported on the basis of the predominant application of the expense or transfer.

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<sup>18</sup>See *Managerial Cost Accounting Standards for the Federal Government*, SFFAS No. 4, for a full discussion of Federal cost accounting principles and standards.

<sup>19</sup>An example of an investment with a split purpose is a grant issued to a state to construct segments of the National Highway System and to conduct highway research.

## Minimum Reporting

- 87 Minimum reporting shall include the following:
- Annual investment<sup>20</sup> shall be reported, including a description of Federally-owned physical property transferred to state and local governments. This information will be provided for the year ended on the balance sheet date as well as for each of the 4 years preceding that year. If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. In those unusual instances when entities have no historical data, only current reporting year data need be reported.
  
  - Reporting shall be at a meaningful category or level, for example, a major program or department. Reporting of major investments at the entity level shall be more specific than at the governmentwide level.
  
  - In some cases, the information called for above is not available because entities have maintained records on the basis of outlays rather than expenses. For such entities to reconstruct their accounts on the basis of expense data may be impracticable. Agencies in this situation 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. If neither historical expense nor outlay data are available for each of the 5 years, entities need report only expense data for the current reporting year and such other years as available. At the end of 5 years, however, the agency will be able to report the expenses to be categorized as investments for nonfederal physical property rather than the outlays for each of the preceding 5 years.
  
  - Reporting shall include a description of major programs involving Federal investments in nonfederal physical property including a description of programs or policies under which non-cash assets are transferred to state and local governments.

## Recommended Reporting

- 88 Reporting of the amount of significant state and local total contributions to shared or joint programs is encouraged but is not required. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) shall be reported even if the exact amount of the contribution is not known.

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<sup>20</sup>As defined in this standard, "annual investment" includes more than the annual expenditure reported by character class for budget execution. "Annual investment" is the full cost of the investment. Full cost shall be measured and accounted for in accordance with *Managerial Cost Accounting Standards for the Federal Government*, SFFAS No. 4.

## CHAPTER 6 HUMAN CAPITAL STANDARD

### Human Capital

Expenses included in calculating net cost for education and training programs that are intended to increase or maintain national economic productive capacity shall be reported as investments in human capital as required supplementary stewardship information accompanying the financial statements of the Federal Government and its component units. Continued categorization of expenses as investments for stewardship purposes is predicated on demonstrated outputs and outcomes consistent with the intent of the program. Reporting will ordinarily include data in nominal dollars on investment for the year being reported upon and the preceding 4 years. Additional years' data also may be reported if such data would provide a better indication of the investment.

### Definition

- 89 "Investment in human capital" refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.
- 90 The definition excludes education and training expenses for Federal civilian and military personnel. It also excludes education and training expenses whose purpose is not maintaining or enhancing national productive capacity.

### Measurement

- 91 "Expenses incurred" - The investment shall be measured on the same basis of accounting as used for financial statements, including appropriate accrual adjustments, general and administrative overhead, and costs of facilities.<sup>21</sup> Amounts shall be reported in nominal dollars.
- 92 Expenses incurred for programs, contracts, or grants with split purposes<sup>22</sup> shall be reported on the basis of an allocation of the investment expenses. If allocation is not feasible, the investment shall be reported on the basis of the predominant application of the expenses incurred.

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<sup>21</sup>See *Managerial Cost Accounting Standards for the Federal Government, SFFAS No. 4*, for a full discussion of Federal cost accounting principles and standards.

<sup>22</sup>An example of an investment with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

93 By no later than the third year after the effective date of this standard, managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available (for example, the agency has not agreed on outcome measures for the program, the agency is unable to collect reliable outcome data or the outcomes will not occur for several years), output data that best provide indications of the intended program outcomes shall be used to justify continued treatment of expenses as investments until outcome data are available. Definitions and characteristics of outputs and outcomes are provided in the paragraphs that follow.<sup>23</sup>

- "Output" - A tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. Outputs shall have two key characteristics: (1) they shall be systematically or periodically captured through an accounting or management information system, and (2) there shall be a logical connection between the reported measures and the program's purpose. Examples of human capital output are high school and college graduates as a percentage of population over 25.
- "Outcome" - An assessment of the results of a program compared to its intended purpose. Outcomes shall: (1) be capable of being described in financial, economic, or quantitative terms and (2) provide a plausible basis for concluding that the program has had or will have its intended effect. Examples of human capital outcomes are program graduates obtaining jobs within 2 months of program completion or program graduates obtaining jobs making more money than they previously received on Federal aid.

## Minimum Reporting

94 Minimum reporting shall consist of:

- The annual investment<sup>24</sup> made in the year ended on the balance sheet date as well as in each of the 4 years preceding that year shall be reported. If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. In those unusual instances when entities have no historical data, only current reporting year data need be reported. Reporting shall be at a meaningful category or level, for example, a major program or department. Reporting of major efforts at the entity level shall be more specific than at the governmentwide level.
- In some cases, the information called for above will not be available because entities have maintained records on the basis of outlays rather than expenses. For such entities to reconstruct their accounts on the basis of expense data may be impracticable. Agencies in this situation 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. If neither historical expense nor outlay data are available for each of the 5 years, entities need report expense data for only the current reporting year and such other years as available. At the end of 5 years, however, the agency will be able to report the expenses to be categorized as investments for human capital rather than the outlays for each of the preceding 5 years.

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<sup>23</sup>The human capital outputs and outcomes should be the same as those measured for the Government Performance and Results Act (GPRA) and the budget and could be reported in a Statement of Program Performance Measures as described in Appendix 1-F to the concepts statement entitled, *Entity and Display*, SFFAC No. 2.

<sup>24</sup>As defined in this standard, "annual investment" includes more than the annual expenditure reported by character class for budget execution. "Annual investment" is the full cost of the investment. Full cost shall be measured and accounted for in accordance with *Managerial Cost Accounting Standards for the Federal Government*, SFFAS No. 4.

- A narrative description of major education and training programs considered Federal investments in human capital shall be included.

### **Recommended Reporting**

- 95 Reporting of the amount of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged, but is not required. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) may be reported even if the exact amount of the contribution is not known.

## CHAPTER 7 RESEARCH AND DEVELOPMENT STANDARDS

### Research and Development

Expenses included in calculating net cost for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits shall be reported as investments in research and development in required supplementary stewardship information accompanying the financial statements of the Federal Government and its component units. Continued categorization of program expenses as investment is predicated on output and outcome data consistent with the program's intent. Reporting ordinarily will include data in nominal dollars on investment for the year being reported upon and the preceding 4 years. Additional years' data also may be reported if such data would provide a better indication of the investment.

### Definition

- 96 "Investment in research and development" refers to those expenses incurred to support 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. Research and development is composed of
- Basic research: systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind;
  - Applied research: systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and
  - **Development:** systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.<sup>25</sup>

### Measurement

- 97 "Expenses incurred" - The investment shall be measured on the same basis of accounting as used for financial statements, including appropriate accrual adjustments, general and administrative overhead, and costs of facilities.<sup>26</sup> Amounts shall be reported in nominal dollars.
- 98 Expenses incurred for programs, contracts, or grants with split purposes<sup>27</sup> shall be reported on the basis of an allocation of the investment expenses. If allocation is not feasible, the investment shall be reported on the basis of the predominant application of the expenses incurred.

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<sup>25</sup>See OMB Circular A-11, section 44.

<sup>26</sup>See *Managerial Cost Accounting Standards for the Federal Government*, SFFAS No. 4, for a full discussion of Federal cost accounting principles and standards.

99 By no later than the third year after the effective date of this standard, managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported.<sup>28</sup> If outcome data are not available (for example, the agency has not agreed on outcome measures for the program, the agency is unable to collect reliable outcome data, or the outcomes will not occur for several years), the outputs that best provide indications of the intended program outcomes shall be used to justify continued treatment of expenses as investments until outcome data are available. Definitions and characteristics of outputs and outcomes follow.

- "Output" - A tabulation, calculation, or recording of activity or effort that can be expressed in a quantitative or qualitative manner. They shall have two key characteristics: (1) they shall be systematically or periodically captured through an accounting or management information system, and (2) there shall be a logical connection between the reported measures and the program's purpose. In research and development programs, this might 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 might consist of such quantitative measures as bibliometrics (for example, publication counts, citation counts and analysis, and peer evaluation); patent counts and analysis; and science "indicators" that assess the ongoing vitality of the research (for example, statistics on scientific and engineering personnel, graduate students and degree recipients by field and sector).<sup>29</sup>

- "Outcome" - An assessment of the results of a program compared to its intended purpose. Because of the difficulty of measuring such results for research and development programs in financial, economic, or quantitative terms, outcome data for such programs are expected to consist typically of a narrative discussion of the major results achieved by the program during the year, along the following lines:

- *Basic Research* - an identification of any major new discoveries that were made during the year;

- *Applied Research* - an identification of any major new applications that were developed during the year; or

- *Development* - the progress of major developmental projects including the results with respect to projects completed or otherwise terminated during the year and the status of projects that will continue.

The information provided concerning outcomes should be chosen to provide, in concise form, a plausible basis for judging the extent to which the program is achieving its purpose.

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<sup>27</sup>An example of an investment with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

<sup>28</sup>The research and development outputs and outcomes should be the same as those measured for the Government Performance and Results Act (GPRA) and the budget and will be reported in a Statement of Program Performance Measures as described in Appendix 1-F to *Entity and Display*, SFFAC No. 2.

<sup>29</sup>*Research Funding as an Investment: Can We Measure the Returns?*, A Technical Memorandum, Congress of the United States, Office of Technology Assessment (Apr. 1986).

## Minimum Reporting

100 Minimum reporting shall consist of the following:

- The annual investment<sup>30</sup> made in the year ended on the balance sheet date as well as in each of the 4 years preceding that year shall be reported. If data for additional years would provide a better indication of investment, reporting of the additional years' data is encouraged. In those unusual instances when entities have no historical data, only current reporting year data need be reported. Reporting shall be at a meaningful category or level, for example, a major program or department. Reporting of major investments at the entity level shall be more specific than at the governmentwide level.
- In some cases, the information called for above will not be available because certain entities have maintained records on the basis of outlays rather than expenses. For such entities to reconstruct their accounts on the basis of expense data may be impracticable. Agencies in this situation 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. If neither historical expense nor outlay data are available for each of the 5 years, entities need report expense data for only the current reporting year and such other years as available. At the end of 5 years, however, the agency will be able to report the expenses to be categorized as research and development rather than the outlays for each of the preceding 5 years.
- A narrative description of major research and development programs shall be included.

## Recommended Reporting

101 Reporting of the amount of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged, but is not required. If it is known, however, that other contributions in a significant amount were made, that fact (for example, expressed as a percentage of the total program) may be reported even if the exact amount of the contribution is not known.

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<sup>30</sup>As defined in this standard, "annual investment" includes more than the annual expenditure reported by character class for budget execution. "Annual investment" is the full cost of the investment. Full cost shall be measured and accounted for in accordance with *Managerial Cost Accounting Standards for the Federal Government*, SFFAS No. 4.

## Appendix B Sample Report Formats

### NONFEDERAL PHYSICAL PROPERTY ANNUAL STEWARDSHIP INFORMATION For the Fiscal Year Ended September 30, 199Z

Annually, the Federal Government provides funding to state and local governments for the purchase, the construction, or the major renovation of physical property owned by state and local governments; additionally, from time to time, the Federal Government transfers PP&E to these governments in exchange for less than fair value. These grants and transfers relate to roads and transportation systems, clean water and environmental projects, and other projects for the common good.

The investments in nonfederal physical property in the 5 years from 199V to 199Z were as follows:  
(in billions of dollars)

	<u>199V</u>	<u>199W</u>	<u>199X</u>	<u>199Y</u>	<u>199Z<sup>m</sup></u>
Transportation	\$ 19.0	\$ 20.0	\$ 20.0	\$ 22.0	\$ 23.0
Natural Resources and Environment	3.7	4.0	3.9	3.7	4.2
Community and Regional Development	4.9	4.3	4.5	5.6	6.3
Administration <sup>n</sup>	<u>2.2</u>	<u>2.3</u>	<u>2.4</u>	<u>2.5</u>	<u>2.7</u>
Total	\$ 29.8	\$ 30.6	\$ 30.8	\$ 33.8	\$ 36.2

In addition to the transfers shown above in the "Community and Regional Development" category, the fair value of land and facilities associated with former military installations that were transferred to local governments approximated \$40 million in 199Y and \$52 million in 199Z.

Certain transportation and environmental programs involving Federal investments of \$22 billion and \$4 billion, respectively, in 199Z required matching support by local governments of about 20 percent and 80 percent of the Federal grants.

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<sup>m</sup>Included as expenses in calculating net cost.

<sup>n</sup>Expenses of administration include an appropriate allocation of agency overhead costs.

## HUMAN CAPITAL

### ANNUAL STEWARDSHIP INFORMATION For the Fiscal Year Ended September 30, 199Z

Federal investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training. Expense data are expressed in nominal dollars for the fiscal year being reported upon and the preceding 4 fiscal years.

Following is a summary of stewardship data for the program entitled, Transition Training for Former Navy Contractor Personnel<sup>o</sup>, for the 5 fiscal years ending September 30, 199V through 199Z:

#### **Program: Transition Training for Former Navy Contractor Personnel**

<u>Program</u> <u>Expenses(\$000s)<sup>q</sup></u>	<u>199V</u>	<u>199W</u>	<u>199X</u>	<u>199Y</u>	<u>199Z<sup>p</sup></u>
Counseling	\$ 373	\$ 508	\$ 740	\$ 980	1,053
Education	786	2,381	3,860	5,621	7,053
Administration <sup>r</sup>	847	1,165	1,224	1,367	1,584
Total	\$ 2,005	\$ 4,054	\$ 5,824	\$ 7,968	9,690

#### **Program Outputs**

Participants					
Counseled	310	415	592	784	823
Participant Years of Training Delivered	162	486	787	1,147	1,432

<sup>o</sup>This hypothetical program is for illustration only.

<sup>p</sup>Included as expenses in calculating net cost.

<sup>q</sup>Expenses are reported on an accrual basis, including contractual amounts due for counseling services delivered and educational costs incurred by participants.

<sup>r</sup>Expenses of administration include an appropriate allocation of agency overhead costs.

**HUMAN CAPITAL SAMPLE REPORT (continued)**

**Program Outcomes**

Preliminary data appear to confirm that the services provided by the program accelerate the transition of participants into alternative employment; some savings are realized in the Unemployment Insurance Fund. A follow-up survey of the 415 participants in the year 199W showed that 80% were earning at least as much as they were earning in their Navy contractor positions. A more extensive evaluation, including an assessment of effects on long-term earnings, is currently planned for completion in 1999.

**Narrative Discussion**

This program was authorized in 19XX (by P.L. XX-XXX) to ease the transition into other civilian positions of skilled technical, administrative, and managerial personnel who are no longer needed in certain shipyards because of declining orders for Navy ship construction.

Eligibility is limited to those who have been employed at designated shipyards for at least 5 years, but who are not yet eligible for retirement benefits. Participants receive intensive counseling to help them develop individual transition plans. This counseling is provided by a private job placement service under contract. Participants are then reimbursed up to \$5,000 per year for up to 2 years, not to exceed 80 percent of the cost of the cost of tuition, fees, books, and other student materials required for attendance at approved educational institutions.

An additional increment of education or technical training is expected to reduce the period of transitional unemployment and increase the subsequent earnings of participants.

## RESEARCH AND DEVELOPMENT

### ANNUAL STEWARDSHIP INFORMATION For the Fiscal Year Ended September 30, 199Z

Federal investment in research and development comprises those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits. Expense data are expressed in nominal dollars for the fiscal year being reported upon and the preceding 4 FYs.

Following is a summary of stewardship data for the Ceramic Materials Research Program<sup>s</sup> for the 5 fiscal years ending September 30, 199V through 199Z:

#### Program: Ceramic Materials Research Program

	<u>199V</u>	<u>199W</u>	<u>199X</u>	<u>199Y</u>	<u>199Z<sup>t</sup></u>
<b>Program Expenses(\$millions)<sup>u</sup></b>					
Basic Research	\$ 106	\$ 124	\$ 136	\$ 132	\$ 143
Applied Research	93	101	107	118	121
Development <sup>v</sup>	46	62	73	68	82
Administration	<u>14</u>	<u>16</u>	<u>17</u>	<u>19</u>	<u>21</u>
Total	\$ 259	\$ 303	\$ 333	\$ 337	\$ 367

#### Program Outputs and Outcomes

Interagency Agreements and Contracts					
New	45	38	41	37	44
Continuation	28	52	55	61	68
Articles in Journals	9	12	23	34	41
Patents from funded R&D	3	8	14	18	21
Rights to Inventions from funded R&D <sup>w</sup>	0	1	0	3	2

<sup>s</sup>This hypothetical program is for illustration only.

<sup>t</sup>Included as expenses in calculating net cost.

<sup>u</sup>Expenses are reported on an accrual basis and include an allocation of overhead costs.

<sup>v</sup>Development grants are for a fixed amount, not to exceed 50 percent of the cost of the project.

<sup>w</sup>Indicates inventions financed with Federal funds to which the government has patent rights, in accordance with the Bayh-Dole Act.

**RESEARCH AND DEVELOPMENT SAMPLE REPORT (continued)**

**Programs Outcomes:**

The increasing number of articles published on the basis of funded research, including announcements of several newly discovered properties of certain composite ceramics, is evidence of the utility of this part of the program. The number of patents emerging from the program is also increasing, primarily from the development component of the program.

**Narrative Discussion:**

This program was authorized in 19XX (by P.L. XX-XXX) to accelerate the development of this industry in the United States. The research element of the program operates through interagency agreements with the Federal laboratories and grants to university researchers. The researchers are selected through peer review procedures. The development component provides grants to private firms to develop improved manufacturing procedures for ceramic materials-based products and to accelerate the development of marketable products incorporating advanced ceramic materials.