

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Federal financial reporting requires DoD to report on its stewardship over certain resources that cannot be measured in traditional financial reports. These resources do not meet the criteria for assets and liabilities 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.

The Department's stewardship investments comprise, and are measured in terms of, expense incurred for: 1) federally-financed but not federally-owned physical property (Nonfederal Physical Property); and 2) federally-financed research and development (Research and Development). Information on additional reporting requirements for Nonfederal Physical Property and Research and Development follows.

### Nonfederal Physical Property

The Nonfederal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Nonfederal Physical Property Investments include federally-owned physical property transferred to state and local governments.

The Department continued transitioning to a new methodology for reporting Nonfederal Physical Property during 2008. Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current Department accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

### Investments in Research and Development

Investment values included in this report are based on Research and Development outlays (expenditures). Outlays are used because current Department accounting systems are unable to capture and summarize costs in accordance with federal accounting standards. The Department continues to improve its methodology for reporting this information. Research and Development (R&D) programs are classified in the following categories: Basic Research, Applied Research and Development. Therefore, the amounts reported in the Investments in R&D table show outlays from FY 2006 – FY 2008 for all DoD Components. The definition for each type of Research and Development Category and Subcategories are explained below.

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>Nonfederal Physical Property</b>					
<b>Department of Defense Consolidated — Nonfederal Physical Property</b>					
<i>Yearly Investments in State and Local Governments</i>			<i>Dollars in Millions</i>		
<i>For Fiscal Years 2008 through 2004</i>					
<b>Categories</b>	<b>2008</b>	<b>2007</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
<b>Transferred Assets:</b>					
National Defense Mission Related	\$ 1,169.2	\$ 1,051.0	\$ 1,295.5	\$ 1,394.7	\$ 4,483.7
<b>Funded Assets:</b>					
National Defense Mission Related	19.6	2.8	8.5	8.3	18.3
<b>Total</b>	<b>\$ 1,188.8</b>	<b>\$ 1,053.8</b>	<b>\$ 1,304.0</b>	<b>\$ 1403.0</b>	<b>\$ 4,502.0</b>

## Department of Defense Agency Financial Report 2008

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, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include non-system-specific development efforts.

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 consists of the five stages defined in the Investments in R&D table.

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

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.

<b>Investments in Research and Development (R&amp;D)</b>					
<b>Department of Defense Consolidated</b>					
<i>Yearly Investments in Research and Development For the Current and Four Preceding Fiscal Years</i>				<i>Dollars in Millions</i>	
<b>Categories</b>	<b>2008</b>	<b>2007</b>	<b>FY 2006</b>	<b>FY 2005 (1)</b>	<b>FY 2004 (1)</b>
<b>Basic Research</b>	\$ 1,526.4	\$ 1,331.2	\$ 1,086.8	\$ 1,107.2	\$ 1,037.7
<b>Applied Research</b>	3,169.7	4,462.0	3,787.0	3,757.5	3,461.3
<b>Development</b>					
Advanced Technology Development	5,977.9	6,019.7	5,737.4	5,795.2	5,057.0
Advanced Component Development and Prototypes	15,410.6	14,109.6	11,906.9	12,793.3	10,944.6
System Development and Demonstration	18,052.9	16,737.8	13,209.8	12,253.1	10,834.8
Research, Development, Test and Evaluation Management Support	5,471.0	4,705.4	3,736.0	3,590.6	3,405.6
Operational Systems Development	20,246.7	13,535.1	5,509.8	5,334.6	5,134.1
<b>Totals:</b>	<b>\$69,855.2</b>	<b>\$60,900.8</b>	<b>\$44,973.7</b>	<b>\$44,631.5</b>	<b>\$39,875.1</b>
<b>(1) Total amount available for obligations</b>					

## Department of Defense Agency Financial Report 2008

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.

Research, Development, Test, and Evaluation Management Support is support for installations and operations for general research and development use. This category 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.

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

### REQUIRED SUPPLEMENTARY INFORMATION

#### Heritage Assets

Heritage Assets					
For Fiscal Year Ended September 30, 2008	2008				
	Measure Quantity	As of 10/1/2007	Additions	Deletions	As of 9/30/2008
<b>Categories</b>					
Buildings and Structures	Each	17,117	6,675	1,684	22,108
Archeological Sites	Each	27,955	1,411	2,208	27,158
Museum Collection Items (Objects, Not Including Fine Art)	Each	113,269	4,012	85	117,196
Museum Collection Items (Fine Art)	Each	10,446	206	102	10,550

Heritage Assets are items of historical, natural, and cultural, educational, or artistic significance (e.g. aesthetic) or items with significant architectural characteristics. Heritage Assets are expected to be preserved indefinitely. FY 2008 categories are as follows:

**Buildings and Structures.** Buildings and structures that are listed on, or eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets.

**Archeological Sites.** Sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places.

**Museums Collection Items.** Items which are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. Museum collection items are divided into two subcategories: fine art and objects. Fine art includes paintings, sculptures, and other three-dimensional art. Objects are current use, excess, obsolete, or condemned materiel; war trophies; and personal property, such as uniforms, medals, or diaries, and military equipment.

## Department of Defense Agency Financial Report 2008

### Stewardship Land

<b>Stewardship Land</b>					
<i>For Fiscal Year Ended September 30, 2007</i>					
<i>(Acres in Thousands)</i>					
<b>Facility Code</b>	<b>Facility Title</b>	<b>As of 10/1/2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>As of 9/30/2007</b>
9110	Government Owned Land	7,925.0	144.0		8,069.0
9111	State Owned Land	141.5	0.5		142.0
9120	Withdrawn Public land	16,064.0	73.5		16,137.5
9130	Licensed and Permitted Land	4,095.3		(1,276.5)	2,818.8
9140	Public Land	701.9	3.8		705.7
9210	Land Easement	498.4		(2.2)	496.1
9220	In-leased Land	2,329.7		(1,509.8)	819.9
9230	Foreign Land	652.3		(38.6)	613.7
<b>Grand Total</b>					<b>29,802.5</b>
<b>TOTAL - All Other Lands</b>					<b>12,817.3</b>
<b>TOTAL – Stewardship Lands</b>					<b>16,985.2</b>
<b>Narrative Statement:</b>					
<i>The fiscal year ended September 30, 2008 stewardship land data will not be available until December 15, 2008 due to limitations of the Department's financial and nonfinancial management processes and systems that feed into the financial statements.</i>					

Stewardship Land is land and land rights owned by the Department but not acquired for, or in connection with, items of General Property, Plant, and Equipment. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land.

Stewardship Land is presented in context of all categories of DoD lands and reported in acres based on the predominant use of the land. The three categories of Stewardship Land held in public trust are: State-Owned Land, Withdrawn Public-Land, and Public Land.

### Real Property Deferred Maintenance

<b>Real Property Deferred Maintenance</b>			
<i>For Fiscal Year Ended September 30, 2008</i>			
<i>(Dollars in Millions)</i>			
<b>Property Type</b>	<b>Current Fiscal Year (CFY)</b>		
	<b>Plant Replacement Value</b>	<b>Required Work (deferred maintenance)</b>	<b>Percentage</b>
Category 1	\$555,787	\$62,810	11%
Category 2	\$52,190	\$7,854	15%
Category 3	\$37,913	\$6,239	16%

The deferred maintenance amount is based upon facility Q-ratings found in the Department's real property inventory. Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. The reported deferred maintenance is the difference between the facility Q rating and the target Q rating that represents the acceptable operating condition established by each Component within the Department. The percentage column reflects the percent of total plant replacement value for each category represented by deferred maintenance.

Facility Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.

## Department of Defense Agency Financial Report 2008

---

- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets.

### Military Equipment Deferred Maintenance

Depot maintenance requirements for military equipment are developed during the annual budget process. The table below shows the deferred unfunded requirements for the depot maintenance program. The Department Components' FY 2008 Budget Estimates contain detailed information on each program.

<b>Military Equipment Deferred Maintenance</b>	
<i>For Fiscal Year Ended September 30, 2008</i>	
<b>Major Categories</b>	<i>(Dollars in Millions)</i>
1. Aircraft	\$762.0
2. Automotive Equipment	\$1.0
3. Combat Vehicles	\$266.0
4. Construction Equipment	\$19.0
5. Electronics and Communications Systems	\$456.2
6. Missiles	\$215.6
7. Ships	\$35.9
8. Ordnance Weapons and Munitions	\$50.6
9. General Purpose Equipment	\$48.0
10. All Other Items Not Identified to Above Categories	\$1,339.6
<b>Total</b>	<b>\$3,193.9</b>