Department of Defense

Performance and Accountability Report

Fiscal Year 2003

December 23, 2003

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Message from the Deputy Secretary of Defense

I am pleased to present the Department of Defense fiscal year 2003 Performance and Accountability Report.

The Department has made significant progress in transforming America's defense posture to enable decisive plans to address future security challenges. We have demonstrated our superior warfighting capabilities in Iraq and Afghanistan. The price of democracy is not cheap. We see continual pressures on the Department's resources in the years ahead. We will focus relentlessly on efficient and careful use of these resources as we continue fighting the global war on terror.

I am very proud of the improvements the Department has made in its personnel management practices and we will continue to drive towards a performance-based rating of our workforce. The quality of life of our military members, who risk their lives for all of us to enjoy the freedoms of democracy, has been enhanced by upgrading facilities and advancing private-public partnerships in military housing. We have also seen increased efficiencies due to practicing more realistic budgeting, increasing our focus on core support functions, and reforming our annual review of programs and funding.

I have seen impressive advancements throughout the past year in the Department's efforts to improve financial reporting and management processes. Specifically, through the Department's Business Management Modernization Program, the financial management processes and controls are being integrated into the business processes to ensure accountability and auditability of the Department's business transactions. This program is enabling the transformation of the Department's business areas and is way overdue. This effort will eliminate the reporting and accountability deficiencies in the current systems and processes.

The Department now has a report card that identifies how well we did towards achieving the strategic plan, objectives, and goals. This is a very effective management tool that is allowing us to keep fine tuning our implementation of the strategic plan. Looking at our report card results this year, the Department met several of its performance goals, but still has work to do in other areas.

The Department is committed to effective internal controls, full compliance with established guidelines and standards, and proper stewardship of the resources entrusted to it. During fiscal year 2003 we corrected 25 management control weaknesses, and except for the unresolved weaknesses noted in the Management Discussion and Analysis section (Part 1) of this report, the Department has reasonable assurance that its management controls are effective. The Department will continue its efforts to resolve the remaining issues and I am confident that the Department will continue to fulfill its mission responsibilities.

Looking ahead, the Department continues the transformation of its support structure and management practices. While the Department has made progress in many areas, we must continue to upgrade performance and accountability, streamline and strengthen management, and ensure that every defense dollar is expended as wisely as possible.

Paul Wolfowitz

Report Overview

The Department of Defense fiscal year 2003 Performance and Accountability Report is designed to provide useful information for American citizens, the President, Congress, other federal organizations, and Department of Defense military members, civilians and contractors.

Our report encompasses the Department's operations for fiscal year 2003, which occurred from October 1, 2002 through September 30, 2003. It contains five parts. Combined, they provide a thorough accounting of the Department's stewardship of our critical resources and services to the American people.

The pressures on the Department's resources have never been greater and will continue to grow in the years ahead. Our response must be to focus relentlessly on efficient and careful use and management of these resources. Only by effectively measuring the results we achieve, as documented in this report, can we adjust the tactics and strategies we use to meet our goal of mission excellence, and deliver the best possible performance for our customers, the American people.

Part 1: Management Discussion and Analysis is a high-level overview of the Department's performance and financial information for fiscal year 2003. It is designed for citizens, members of the public, and officials from federal, state, and local government. Part 1 starts with a discussion of the Department of Defense (DoD) mission, organization and resources. It highlights the Department's performance—covered in more detail in Part 2—by summarizing the strategic plan and goals and the fiscal year 2003 annual performance goals and results. Next, it provides financial highlights—covered in more detail in Part 3—for fiscal year 2003. The Department's compliance with legal and regulatory requirements are also discussed in this section. Part 1 concludes with a summary of the Department's status on meeting the President's Management Agenda objectives.

Part 2: Performance Information presents the Department's strategic plan, strategic objectives, annual performance goals, and annual performance results for fiscal year 2003 in accordance with the Government Performance and Results Act. It displays key performance indicators—and their fiscal year 2003 goals and results—that the Department uses to manage certain risk areas and to accomplish its strategic objectives.

Part 3: Financial Information is composed of the Department's principal financial statements, notes to these statements, consolidating and combining statements, and other required information for fiscal year 2003. This section includes the DoD Inspector General Auditors' Report on the Department's fiscal year 2003 financial statements. The Auditors' Report provides the Inspector General's assessment of whether the Department's financial statements are fairly presented, in all material respects, and in conformity with generally accepted accounting principles.

Part 4: Inspector General Summary of Management Challenges presents a summary of the most serious management challenges facing the Department. This assessment was prepared by the DoD's Office of Inspector General.

Part 5: Appendices presents detailed DoD performance indicators and a list of internet links for further information referred to in this report.

We are interested in your feedback regarding the content of this report. Please feel free to email your comments to DoDPAR@osd.mil or write to:

U.S. Department of Defense
Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

Additional copies of this report can be obtained by sending a written request to the e-mail or mailing address listed above.

You may also view this document at www.dod.mil/comptroller/par.

Part 1:
Management Discussion and Analysis

Mission, Organization, and Resources

Mission

The mission of the United States Armed Forces is to protect and advance the security and national interests of the United States, to deter aggressors and, if deterrence fails, to defeat any adversary.

Photos courtesy of Military Department webmasters

Organization

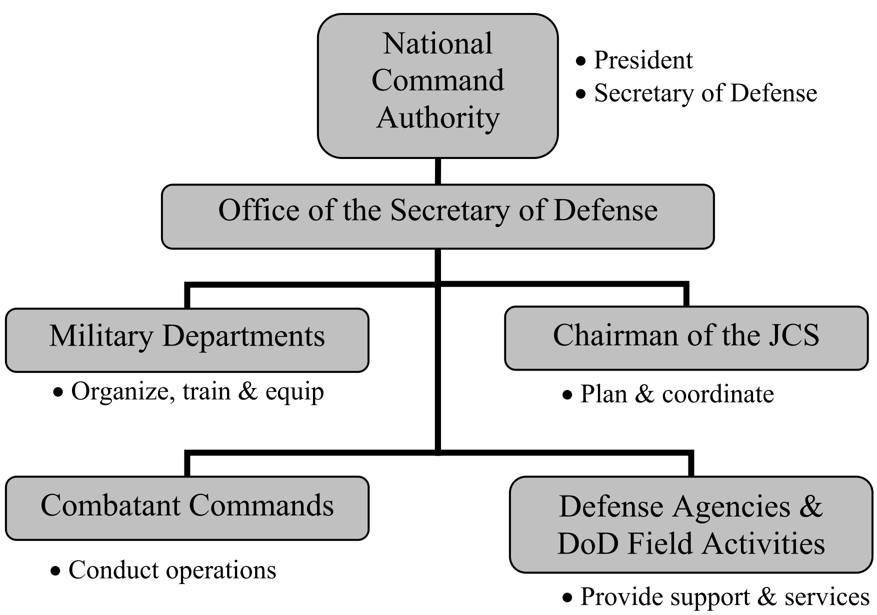
The Department of Defense (DoD) is a Cabinet-level organization that receives orders directly from the President of the United States. The Secretary of Defense is appointed by the President and is responsible for the formulation and execution of defense policy.

The Office of the Secretary of Defense carries out the Secretary's policies by tasking the Military Departments, the Chairman of the Joint Chiefs of Staff (JCS), the Combatant Commands, and the Defense Agencies and DoD Field Activities.

Military Departments. The Military Departments consist of the Army, Navy—of which the Marine Corps is a component—and the Air Force. The U.S. Coast Guard is also special component of the Navy in wartime, but is otherwise a bureau of the Department of Homeland Security.

These Departments recruit, train, and equip military forces. When the President and Secretary of Defense determine that military action is required, these trained and ready forces are assigned to a combatant command that is responsible for conducting the military operations.

The Military Departments are composed of Active Duty, Guard, and Reserve Forces. The National Guard and Reserve Components represent approximately half of America's total uniformed force. These forces provide additional support during military operations. They also perform critical humanitarian, peacekeeping, law enforcement, and disaster assistance missions for the Department of Defense, all of which are important to protecting the national security of the United States.



Chairman of the Joint Chiefs of Staff. The Chairman of the Joint Chiefs of Staff plans and coordinates troop deployments and DoD operations that are conducted by the Combatant Commands.

Combatant Commands. The nine Combatant Commands have responsibility for conducting DoD missions in specific geographical areas of the world. The Army, Navy and Marines, and Air Force supply forces to these commands.

Five of these commands have specific mission objectives for their geographic area of responsibility:

- U.S. European Command (EUCOM)
- U.S. Central Command (CENTCOM)
- U.S. Pacific Command (PACOM)
- U.S. Southern Command (SOUTHCOM)
- U.S. Northern Command (NORTHCOM)

For example, CENTCOM was primarily responsible for conducting Operation Iraqi Freedom.

The other four commands have worldwide mission objectives for their area of responsibility:

- U.S. Strategic Command
- U.S. Special Operations Command
- U.S. Transportation Command
- U.S. Joint Forces Command

For example, the U.S. Transportation Command is responsible for moving military equipment, supplies and personnel around the world for peacekeeping and military missions.

Defense Agencies and DoD Field Activities. Defense Agencies and DoD Field Activities provide support services that are commonly used throughout the Department. For instance, the Defense Finance and Accounting Service provides accounting services, contractor and vendor payments, and payroll services, and the Defense Logistics Agency provides logistics support and supplies to all DoD activities.

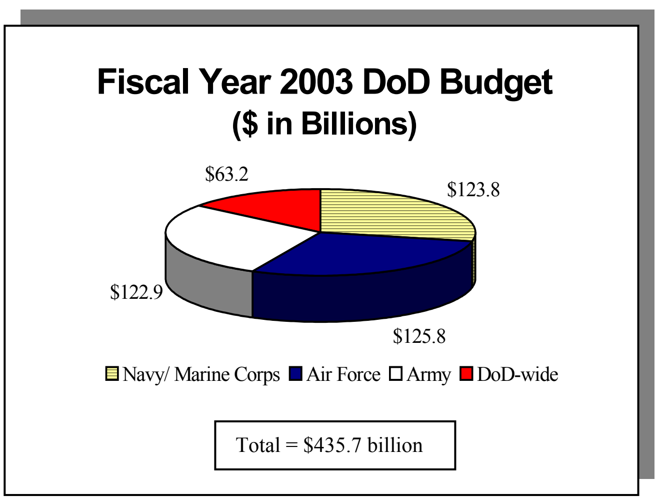
Combatant Commands with Geographic Responsibilities

Resources

People. To provide the citizens of the United States with the highest level of national security, the Department of Defense employs 1.4 million men and women in Active Duty, another 1.2 million in the Reserve and Guard Components, and approximately 680 thousand civilians. Together, these men and women work daily to protect American interests in numerous countries.

Physical Assets. The Department maintains a robust infrastructure, operating more than 600,000 individual buildings and structures located at more than 6,000 different locations, and using more than 30 million acres. To protect the security of the United States, the Department uses about 250,000 vehicles, more than 15,000 aircraft, more than 1,000 oceangoing vessels, and some 550 public utility systems.

Budget. The Department's budget for fiscal year 2003 was $435.7 billion.



Performance Highlights

Key Performance results are summarized in this section; detailed performance information provided in Part 2 and Part 5 of this report.

Strategic Plan

The attacks of September 11, 2001 ushered the United States into a new and dangerous period. Enemies will seek to strike the United States and its forces in novel and surprising ways. As a result, the United States must fight and win the present war against terrorism while preparing for future wars that will be notably different from those of the past century and even from the current conflict.

Some believe that, with the United States in the midst of a difficult and dangerous war on terrorism, now is not the time to transform our Armed Forces. The opposite is true. Now is precisely the time to make changes. The attacks of September 11, 2001 lent urgency to this endeavor.

Transforming the United States Armed Forces is necessary because the challenges presented by this new century are vastly different from those of the last century or even the last 10 years. During the Cold War, America faced a relatively stable and predictable threat. The challenges of the 21st century are much less predictable. Future attacks could grow vastly more deadly than those on September 11, 2001. Surprise and uncertainty thus define the challenge the Department of Defense faces in this new century—to defend the nation against the unknown, the unseen, and the unexpected.

Transforming the United States Armed Forces is the underlying theme in the Department's Quadrennial Defense Review report from 2001, which serves as our strategic plan. The Department is required by law to reevaluate defense missions and priorities every 4 years, immediately following the presidential election. These major assessments cover all facets of the Department's operations and result in the issuance of the Quadrennial Defense Review report (http://www.defenselink.mil/pubs/qdr2001.pdf).

Strategic Goals

The Quadrennial Defense Review, which serves as the Department's strategic plan, has four strategic defense policy goals.

Strategic Goals

1. Assuring allies and friends
2. Dissuading future military competition
3. Deterring threats and coercion against U.S. interests
4. If deterrence fails, decisively defeating any adversary

Assuring Allies and Friends. The presence of American forces overseas is one of the most profound symbols of the U.S. commitment to allies and friends. Through its willingness to use force in its own defense and that of others and to advance common goals, the United States demonstrates its resolve and the credibility of the U.S. military. The Department helps allies and friends create favorable balances of military power in critical areas of the world to deter aggression or coercion. The Department's strategic direction is inevitably linked with that of U.S. allies and friends.

Dissuading Future Military Competition. United States strategy and actions influence the nature of future military threats, guide threats in certain directions, and complicate military planning for potential adversaries. The U.S. also exerts influence by conducting research, development, test, and demonstration programs, and maintaining or enhancing advantages in key areas of military capability. Well targeted strategy and policy can therefore dissuade other countries from initiating future military competitions.

Deterring Threats and Coercion Against U.S. Interests. The Department provides forces and capabilities to the President that give him a wide range of military options to discourage aggression and coercion. The Department is enhancing future military capability by using global intelligence and information. The Department also requires forces that can strike with precision at fixed and mobile targets and that can be rapidly deployed and easily sustained to decisively defeat any adversary.

If Deterrence Fails, Decisively Defeating Any Adversary. U.S. forces must maintain the capability at the direction of the President to decisively defeat any adversaries of the United States and its allies and friends. Such a decisive defeat could include changing the regime of an adversary state or occupation of foreign territory until U.S. strategic objectives are met.

Annual Performance Goals and Results

The Department cannot achieve the goals of the defense strategy without a disciplined approach to managing risk. The previous emphasis on near-term operational risk minimized critically needed investments in people, in modernizing equipment, and in maintaining the defense infrastructure. The defense strategy attempts to balance various risks by establishing a framework composed of four risk categories.

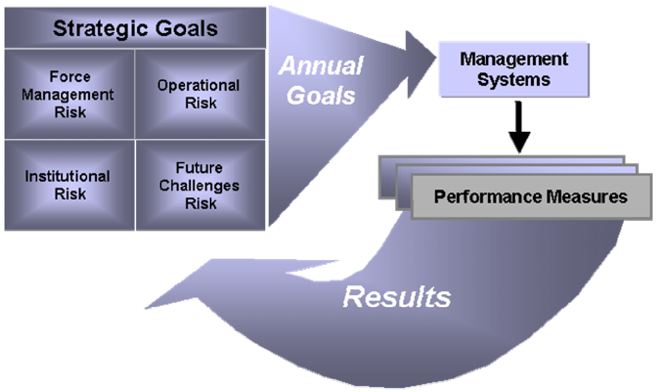
1. **Force management risk** – This risk stems from issues affecting the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing our many operational tasks.

2. **Operational risk** – This risk results from factors shaping the ability to achieve military objectives in a near-term conflict or other contingency.

3. **Future challenges risk** – This risk derives from issues affecting the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges.

4. **Institutional risk** – This risk stems from the management practices and controls that affect the efficiency with which resources are used and that shape the effectiveness of the Defense establishment.

This risk management framework guides the Secretary and his senior military and civilian advisors in making strategic trades in how we set management priorities and allocate resources.



The following paragraphs summarize the annual performance goals established to reduce risk in these four areas and summarize the Department's fiscal year 2003 results.

Reducing Force Management Risk

Force management risks steadily mounted during the past decade. The Department under-invested in its people, both in terms of compensation and quality of life factors such as housing. At the same time, the increase in deployments led to excessive operational tempo for units and excessive personnel tempo for service members. Together, these trends took a toll on military families, reduced morale, and contributed to the reduced ability to retain military personnel with key skills and leadership abilities. This negative cycle illustrates the kind of force management risk that the Department must monitor and control.

Just as the Department invests resources to maintain the operational readiness of its forces, it will now also consciously invest dollars to mitigate force management risks. These actions are indispensable in terms of sustaining the nation's commitment to an all-volunteer force, and to keeping faith with the men and women who serve in the uniform.

The Department met several of its fiscal year 2003 performance goals related to the force management risk area. These include maintaining military manning levels, meeting military recruiting goals, and meeting military retention goals. The Department continues to work toward improving the quality of military health care and other force management related goals because obtaining these goals is critical for ensuring effective civilian recruitment, training, and retention.

Reducing Operational Risk

During the past decade, near-term operational risks have been the dominant concern of the Department, crowding out attention given to other sources of risk. This was the result of the primacy in the Department's thinking of the two major theater war construct for sizing and planning United States forces. Under this construct, operational risk was measured almost exclusively in terms of the ability of the Armed Forces to wage two major theater wars simultaneously in Northeast Asia and Southwest Asia.

In 2001, the Department adopted a new approach to managing operational risk, moving away from the two major theater war construct and adopting a new construct that more realistically captures the demands facing the Armed Forces.

In 2003, the Department met several of its performance goals related to the operational risk area. The Department developed a building-block approach to aligning and packaging forces consistent with that new construct. In addition, the Department examined how to reshape the "global footprint" of forces stationed permanently or on rotation overseas, as well as their associated base infrastructure. It also established a formal feedback loop to ongoing operations by creating an integrated, Department-wide protocol for collecting and assessing lessons learned from recent or current operations, so as to quickly adjust how the United States allocates, equips, employs, and sustains capabilities in the field.

Reducing Future Challenges Risk

In light of the dynamic changes in the security environment, a premium has been placed on the need to manage future challenges risk. While many elements of the existing force will continue to contribute to the United States Armed Forces capabilities, defense managers acknowledge the need to develop new, leading-edge capabilities.

The Department met several fiscal year 2003 goals pertaining to the future challenges risk area. The Department completed a Joint Experimentation Campaign Plan to explore concepts developed both inside and outside of the Department—any new idea that could improve how we command and control joint forces across the battle space in cities, jungles, mountains, or forests. In March, the Department completed its evaluation of the lessons learned from Millenium Challenge 2000, the first joint exercise conducted by U.S. Joint Forces Command. In June, the Chairman of the Joint Chiefs of Staff published joint experiment performance goals for fiscal years 2004 and 2005. The Department also developed a prototype and defined standard operating procedures for the Standing Joint Force Headquarters.

In addition, an independent peer review panel rated 96% of the Department's Defense Technology Objectives—technologies such as radar, jet engines, nuclear weapons, night vision and smart weapons—as progressing satisfactorily for fiscal year 2003.

Reducing Institutional Risk

As the Department transforms its military capabilities to meet changing threats, it must do more to ensure that its people can focus their immense talents to defend America, and that they have the resources, information, and freedom to perform.

Mitigating institutional risk necessitates changing the way the Department conducts its daily business. It is a matter of urgency, because left alone, the current organizational arrangements, processes, and systems will continue to drain scarce resources from training, infrastructure, operations, and housing. In addition, if left unattended, institutional risks over time will increase risks in other areas like force management, operational, and risks related to future challenges.

The Department met several fiscal year 2003 goals related to the institutional risk area. For example, the Department reduced the percentage of its budget spent on infrastructure and reduced the number of inadequate military family housing units. The Department did not meet its performance goals for reducing major defense acquisition program cycle times, decreasing the recapitalization rate for funding DoD facilities and buildings, and reducing customer wait time in the supplies and materials ordering process.

Financial Highlights

Key Financial information is summarized in this section with detailed financial information provided in Part 3 of this report.

Financial Overview

The Department is continuing to improve its business management practices. To remain as the world's premier military power, it can do no less. The Department is currently teaming with IBM to transform our business processes and systems through the Department's Business Management Modernization Program (http://www.dod.mil/comptroller/bmmp/pages/index.html). This transformation effort is designed to better support the Department's combat forces and help achieve the Department's strategic goals.

Through this program, the Department developed the initial version of a new business enterprise architecture in April 2003—on schedule and under budget. The architecture helps describe how the Department's business processes and systems will integrate to ensure that accurate and timely financial information is readily available for decision makers. The architecture provides a foundation for breaking down inefficient stovepipe processes and systems and effecting streamlined, integrated business processes and systems.

The Department also developed a transition plan to help describe the transformation from the current business management structure to the future business enterprise architecture. The Department also initiated a corporate governance process to help implement the architecture.

During the next phase of business transformation, the Department will focus on business process reengineering by using the architecture as the starting point for changing business processes. Concurrent with maintaining and extending the architecture, the Department will implement the transition plan and ensure cross-functional management of business systems and processes.

When the architecture is fully implemented, the Department will more effectively and efficiently manage and account for resources. Architecture implementation will also help enable the Department to obtain a favorable audit opinion on its financial statements.

A summary of the Department's business enterprise architecture implementation plan follows, identifying key actions, the status, milestones, and costs.

Defense Business Modernization Program Summary

Action	Status	Milestone	Cost (thousands)
Business Enterprise Architecture	Version 1.0 delivered on schedule.	April 30, 2003	$65,793
Business Enterprise Architecture Transition Plan	Version 1.0 delivered on schedule.	April 30, 2003	$9,559
Business Process Reengineering	Developing initial information exchanges, data process models, and business rules.	April 30, 2004 – Business Enterprise Architecture and Transition Plan version 2.0	$63,269

Overhauling the Department's business and financial management processes and systems represents a major management challenge that goes far beyond financial accounting. The Secretary and his senior leaders are committed to changing the Department's business culture, thus improving the Department's combat support infrastructure.

Nearly 50 percent of the Department's liabilities received favorable audit results

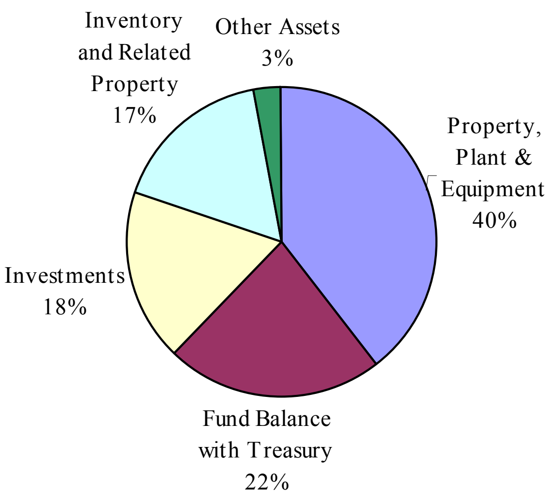
The Department has already made progress in transforming its business and financial processes and systems. A number of the Department's subordinate agencies including the Military Retirement Trust Fund, the Defense Commissary Agency, the Defense Contract Audit Agency, and the Defense Finance and Accounting Service received favorable audit opinions on their financial statements this year. Nearly 50 percent of the Department's liabilities received favorable audit results.

The Department created detailed financial improvement plans this year to obtain a favorable audit opinion on the fiscal year 2007 DoD-wide financial statements. These improvement plans will be used to provide disciplined leadership, identify corrective actions, implement solutions, and plan for audits commensurate with management's representations. Achieving this goal is critical because a favorable opinion provides independent assurance to the public and other external users that the Department's financial information is reliable and accurate.

The Department's Financial Indicators Program is aligned with the President's Management Agenda (discussed later) and the risk management framework established in the Department's strategic plan. The Financial Indicators Program provides the framework for establishing executive-level performance goals and tracking results; designates key performance outcomes, measures, and indicators; and assigns responsibility for cascading performance metrics to the individual component levels within the Department.

Financial Statement Analysis

Types of Assets



Assets. The Consolidated Balance Sheet shows that DoD assets as of September 30, 2003, were $1,129.9 billion, a net increase of $448.0 billion (66%) from fiscal year 2002.

A new federal accounting standard requiring military equipment (tanks, planes, ships, etc.) and missiles to be included on the balance sheet caused Property, Plant, and Equipment to increase $323.7 billion, and Inventory and Related Property to increase $48.0 billion.

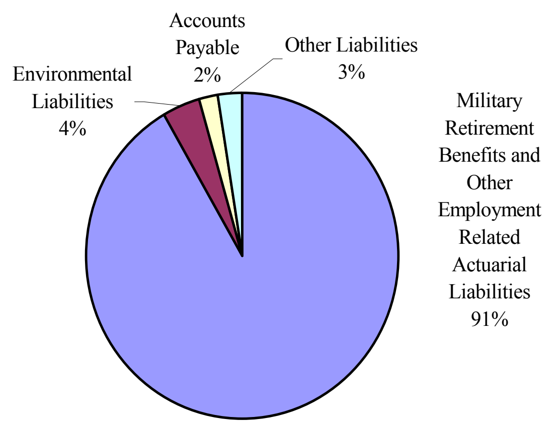
Increased funding to fight the Global War on Terrorism and to conduct Operation Iraqi Freedom and Enduring Freedom in Afghanistan caused the Fund Balance with Treasury to increase $46.2 billion. In addition, a small portion ($387 million) of the Fund Balance with Treasury increase is due to cash seized both inside and outside of Iraq during Operation Iraqi Freedom. The total cash seized as of September 30, 2003 was $2.5 billion and $2.1 billion was spent to support the Iraqi people and Iraq reconstruction effort.

Investments increased $24.8 billion primarily due to the receipt of funds for the Department's newly established Medicare Eligible Retiree Health Care Fund for retired military members and their dependents.

Assets

Asset Type	Fiscal Year 2003	Fiscal Year 2002	Change
	Billions		
Property, Plant, and Equipment	$446.3	$122.6	$323.7
Inventory and Related Property	$194.2	$146.2	$48.0
Fund Balance with Treasury	$252.0	$205.8	$46.2
Investments	$205.6	$180.8	$24.8
Other Assets	$31.8	$26.5	$5.3
Total	**$1,129.9**	**$681.9**	**$448.0**

Types of Liabilities



Liabilities. The Consolidated Balance Sheet shows that DoD liabilities as of September 30, 2003, were $1,558.6 billion, an increase of $107.3 billion (7%) from fiscal year 2002.

Military Retirement Benefits and Other Employment Related Actuarial Liabilities increased $100.8 billion due to expected changes in liabilities related to interest and accrual costs, and the net effect of other actuarial gains and losses such as: changes in actuarial assumptions including medical trend and salary increase, revised methodology for the projection of reservists, and a new military pay table.

Accounts Payable increased $3.7 billion which is primarily attributable to increased spending due to fighting the Global War on Terrorism, such as conducting Operation Iraqi Freedom and Operation Enduring Freedom.

Environmental Liabilities increased $2.1 billion primarily due to the Department of the Army's ongoing efforts to improve their estimating for closed ranges requiring environmental restoration.

Liabilities

Liability Type	Fiscal Year 2003	Fiscal Year 2002	Change
	Billions		
Military Retirement Benefits and other Employment Related Actuarial Liabilities	$1,429.6	$1,328.8	$100.8
Accounts Payable	$28.0	$24.3	$3.7
Environmental Liabilities	$61.5	$59.4	$2.1
Other Liabilities	$39.5	$38.8	$0.7
Total	**$1,558.6**	**$1,451.3**	**$107.3**

Costs. The Consolidated Statement of Net Cost shows that the total cost of operations for the Department of Defense for fiscal year 2003 was $512.3 billion, an increase of $132.1 billion (35%) from fiscal year 2002. The increased costs were primarily incurred due to fighting the Global War on Terrorism. As indicated by the table below, increases occurred in several major military programs to support this effort. Most notably, costs to pay military personnel increased by $22.2 billion and costs to operate, maintain, supply and transport forces increased by $35.7 billion. In addition, the Department's military retirement costs increased $34.3 billion due to increased actuarial liabilities. The Consolidating Statement of Net Cost provides a more detailed breakout of the Department's costs.

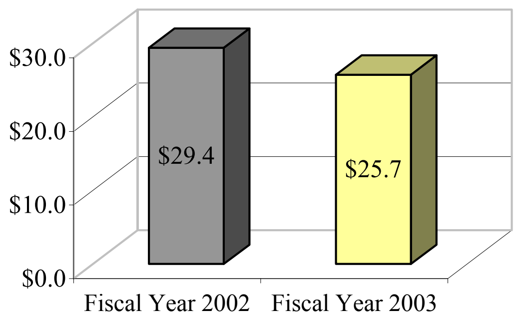
Costs

Program Type	Fiscal Year 2003	Fiscal Year 2002	Change
	Billions		
Military Personnel	$108.9	$86.7	$22.2
Operation & Maintenance	$176.2	$140.5	$35.7
Procurement	$60.0	$57.8	$2.2
Research, Development, Test & Evaluation	$51.1	$42.6	$8.5
Military Retirement	$48.8	$14.5	$34.3
Other Program	$67.3	$38.1	$29.2
Total	**$512.3**	**$380.2**	**$132.1**

Revenues. The Consolidated Statement of Net Cost shows that the total revenues received by the Department for fiscal year 2003 were $25.7 billion. This is a $3.7 billion (13%) decrease in revenues received in fiscal year 2002.

The decrease in revenues occurred primarily due to the amount of interest earned by the Military Retirement Fund. Interest on investments for this fund decreased from $12.4 billion to $10.0 billion due to falling interest rates on investments held in 2003.

Revenues
($ in billions)

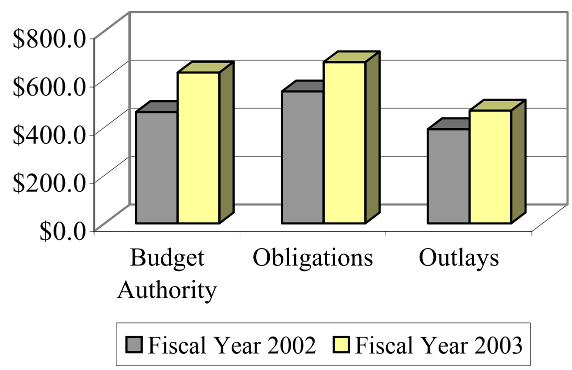


Budget Authority. This is the authority provided by law to incur financial obligations that will result in outlays. Specific forms of budget authority include appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The Combined Statement of Budgetary Resources shows that the amount of budget authority the Department had for fiscal year 2003 was $626.4 billion. This is a $163.8 billion (35%) increase from fiscal year 2002. Increased funding to fight the Global War on Terrorism caused this increase and the corresponding increases to both obligations and outlays, which are discussed next.

Obligations. An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. The Combined Statement of Budgetary Resources shows that obligations made during fiscal year 2003 were $669.8 billion, an increase of $121.4 billion (22%) from fiscal year 2002.

Outlays. An outlay is a payment to liquidate an obligation (other than the repayment of debt principal). Outlays generally are equal to cash disbursements, but also are recorded for cash-equivalent transactions, such as the subsidy cost of direct loans and loan guarantees, and interest accrued on public issues of public debt. Outlays are the measure of Government spending. The Combined Statement of Budgetary Resources shows that outlays made during fiscal year 2003 were $468.6 billion, an increase of $77.0 billion (20%) from fiscal year 2002.

Statement of Budgetary Resources
($ in billions)



Compliance with Legal and Regulatory Requirements

Each year the Department works aggressively to comply with laws made by Congress to ensure that the federal government provides the best possible service to the American people. Among these laws are the:

- Chief Financial Officers Act of 1990
- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996
- Inspector General Act Amendments of 1988
- Improper Payments Information Act of 2002
- Homeland Security Act of 2002

Chief Financial Officers Act

The Chief Financial Officers Act requires federal agencies to prepare auditable annual financial statements. Each year, the Department prepares annual financial statements.

As discussed earlier, several of the Department's subordinate agencies have received a favorable audit opinion on their financial statements. However, to date, the DoD-wide statements have received a disclaimer of opinion from the auditors, which means the statements are unauditable.

The Department created detailed financial improvement plans to obtain a favorable audit opinion on its fiscal year 2007 financial statements. These plans identify specific corrective actions, costs, and key milestones for improving the information reported in the Department's financial statements.

During the fiscal year 2002 DoD-wide financial statement audit, the auditors highlighted 13 financial statement weaknesses. The Department informed its financial statement auditors that two of these weaknesses relating to military retirement health care liabilities and problem disbursements were corrected in fiscal year 2003. A table summarizing the Department's remaining 11 financial statement weaknesses follows:

Financial Statement Weakness	Description	Status
Financial Management Systems	DoD-wide systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and performance information that is accurate, reliable, and timely.	The Department developed the initial version of a new business enterprise architecture. The architecture helps describe how the Department's business processes and systems will integrate to ensure that accurate and timely financial information is readily available for decision makers. The Department expects to implement the financial management portion of the business architecture and correct this weakness by 4^{th} quarter, fiscal year 2006.
Intragovernmental Eliminations	The inability to reconcile most intragovernmental transactions results in adjustments that cannot be verified.	The Department is actively working with other federal agencies to help resolve this issue. Many of the problems will be corrected with the implementation of the government-wide intragovernmental transactions web-based portal and the Department's business enterprise architecture over the next few years. The Department expects to resolve this weakness by 4^{th} quarter, fiscal year 2006.
Accounting Entries	The Department continues to enter material amounts of unsupported accounting entries.	The Department has implemented a training program to minimize unsupported accounting entries. Total elimination of these entries is contingent upon full implementation of the Department's business enterprise architecture. The Department expects to correct this weakness 4^{th} quarter, fiscal year 2006.

Financial Statement Weakness	Description	Status
Fund Balance with Treasury	A significant amount of disbursements are not accurately reported. Uncleared differences exist between cash transactions reported by the DoD and Treasury Department's records.	The Department strengthened internal controls for disbursements through reconciliation training and metric tracking to more accurately record disbursements. The Department also obtained legislation to clear old unreconcilable suspense accounts and check issue differences. The Department has a multi-phase program underway to enhance system functionality for improving expenditure reconciliation and reporting. The Department expects to clear this weakness by 4th quarter, fiscal year 2005.
Environmental Liabilities	Guidance and audit trails are insufficient. The inventory of ranges and operational activities (landfills, open burning pits, etc.) is incomplete.	The Department issued guidance in October 2002 and will issue additional guidance for on-going operations within the next few months. An inventory of ranges is 95 percent complete and the operational ranges inventory will be completed by August 2004. The Department expects to correct this weakness by 4th quarter, fiscal year 2004.
General Property, Plant and Equipment (PP&E)	The cost and depreciation of PP&E is not reliably reported due to (a) a new accounting requirement that went into effect in fiscal year 2003 that classifies military equipment as General PP&E, (b) a lack of supporting documentation for PP&E with long useful lives, and (c) most legacy property and logistics systems are not integrated with acquisition and financial systems and were not designed to capture the acquisition cost, cost of modifications and upgrades or to calculate depreciation.	The Department implemented guidance and training to improve property accountability and provide better financial reporting. We developed an estimation model in coordination with the Bureau of Economic Analysis to record a value for the Department's military equipment in fiscal year 2003. We expect complete and reliable PP&E reporting by 4th quarter, fiscal year 2005.

Financial Statement Weakness	Description	Status
Government Furnished Material and Contractor Acquired Material	The cost of DoD property and material in the possession of contractors is not reliably reported due to a lack of an integrated reporting methodology with industry.	The Department is working on policy and processes to help correct this weakness. Implementation of new policy and the Department's business enterprise architecture will eliminate this problem. The Department expects to correct this weakness by 4th quarter, fiscal year 2005.
Inventory	The existing inventory valuation method does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific items or purchases.	We will publish and implement policy that changes the Department's inventory valuation method to moving-average-cost in fiscal year 2004. This new policy will allow the Department to adequately capture necessary costs, gains, and losses. This policy and the implementation of the Department's business enterprise architecture will correct this weakness by 4th quarter, fiscal year 2005.
Operating Materials and Supplies	The Department's systems were designed to expense materials when purchased rather than when consumed.	The implementation of the Department's business enterprise architecture will correct this weakness by 4th quarter, fiscal year 2005.
Statement of Net Cost	The Statement of Net Cost is not presented by specific programs that align with major goals and outputs described in the Department's strategic and performance plans required by the Government Performance and Results Act. Revenues and expenses are reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.	The implementation of the Department's business enterprise architecture will correct this weakness by 4th quarter, fiscal year 2006.

Financial Statement Weakness	Description	Status
Statement of Financing	The DoD cannot reconcile budgetary obligations to net cost without making unsupported adjustments.	The implementation of the Department's business enterprise architecture will correct this weakness by 4th quarter, fiscal year 2006.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act requires federal agencies to assess the effectiveness of management, administrative and accounting controls, and financial management systems. Using self-assessments as the basis, this Act requires agency heads to provide an annual statement of assurance on the effectiveness of the management controls and to include material weaknesses found in management controls that warrant reporting to a higher level. The Department's fiscal year 2003 Annual Statement of Assurance is provided in the Deputy Secretary's Message at the front of this report.

Maintaining integrity and accountability in programs and operations:

(1) is critical for good government,
(2) demonstrates responsible stewardship over assets and resources,
(3) promotes high-quality, responsible leadership,
(4) enhances the sound delivery of services to customers, and
(5) maximizes desired program outcomes.

The Department regularly monitors and aggressively works to improve the management control effectiveness of its operations, programs and financial systems.

The Department uses periodic self-assessments as the basis for the annual statement of assurance and reports management control weaknesses relating to Sections 2 and 4 of this Act. Section 2 requires "internal accounting and administrative controls that reasonably ensure costs comply with applicable laws, assets are safeguarded, and revenue and expenses are recorded and accounted for properly." Section 4 requires that "accounting systems conform to principles, standards or related requirements prescribed by the Comptroller General."

The Department strongly encourages forthright reporting of material weaknesses in management controls on all operations important to mission accomplishment of defending our nation from adversaries, foreign or domestic. As old weaknesses are corrected, the same number or more may be found and reported. Therefore, the outstanding number of uncorrected weaknesses may not change significantly from one fiscal year to another. The Department monitors corrective activities and does not allow milestone slippage without justification by senior leaders.

The Department classifies management control weaknesses into 3 categories:

1. Section 2 Material Weaknesses: Weaknesses in management controls that warrant reporting to a higher level and usually affect a single DoD Component.

2. Section 2 Systemic Weaknesses: Material Weaknesses that affect management controls across organizational and program lines and usually affect multiple DoD Components.

3. Section 4 System Nonconformance Weaknesses: Systems nonconformance with the principles, standards or related requirements prescribed by the Comptroller General.

Last fiscal year, the Department had 70 uncorrected material weaknesses. In fiscal year 2003, the Department reported 10 new weaknesses, corrected 25 weaknesses, and consolidated the reporting of 15 additional weaknesses, leaving 40 uncorrected weaknesses at the end of fiscal year 2003. Of the 10 new weaknesses, 2 are systemic and 8 are material weaknesses.

The Department identified nine areas that affect numerous DoD Components as systemic weaknesses. The Department identified the remaining 31 weaknesses as material weaknesses affecting the individual component as indicated on the table below.

In fiscal years 2002 and 2003, the Department reported one Section 4 System Nonconformance Weakness which encompasses the entire DoD financial system noncompliance with control requirements. The Department also considers DoD financial system's noncompliance as a systemic weakness affecting multiple DoD Components. In addition, the auditors have identified DoD financial systems as a material weakness under the requirements of the Chief Financial Officers Act in both fiscal years 2002 and 2003.

The following table lists the systemic weaknesses (9), material weaknesses (31), and system nonconformance weakness (1). The material weaknesses are further divided into those adversely affecting the Department's financial operations, and those that adversely affect operations critical to the core mission of national defense or other critical DoD function. The systemic weakness correction dates reflect the Department's fiscal year 2003 position.

Section 2 Systemic Weaknesses
1. DoD Financial Management Systems and Processes: DoD financial and business management systems and processes are not fully integrated and do not provide information that is reliable, timely and accurate. The estimated correction date is 4th Qtr, fiscal year (FY) 2006.
2. Management of Information Technology and Assurance: DoD needs to better manage information technology and needs assurance that information technology is adequately protected. The estimated correction date is 3rd Qtr, FY 2007.

Section 2 Systemic Weaknesses (Continued)
3. Environmental Liabilities: The DoD has not developed the policies, procedures, and methodologies needed to ensure that cleanup costs for all of its ongoing and inactive or closed operations are identified, consistently estimated, and appropriately reported. Site inventories and cost methodologies to identify budget requirements and financial liabilities continue to need improvement. The estimated correction date is 1st Qtr, FY 2006.
4. Personnel Security Investigations Program: DoD hiring is adversely affected because personnel security investigations are backlogged. The estimated correction date is 4th Qtr, FY 2004.
5. Real Property Infrastructure: The Department has not adequately managed the real property infrastructure to halt the deterioration or obsolescence of facilities on military installations. The estimated correction date is 1st Qtr, FY 2006.
6. Contracting for Services: Acquisition oversight is not always adequate when contracting for DoD services and can result in failure to obtain the best value on individual procurements. The estimated correction date is 2nd Qtr, FY 2005.
7. Government Card Program Management: Instances of misuse, abuse, and fraud in respect to purchase and travel card use have been attributed to inadequate DoD emphasis on proper use of the cards, poorly enforced controls, and lax oversight. The estimated correction date is 4th Qtr, FY 2004.
8. Valuation of Plant, Property and Equipment on Financial Reports: The valuation of general plant, property, and equipment is not always correctly reported. FY 2003 is the first year DoD reported this as a systemic weakness. The estimated correction date is 4th Qtr, FY 2006.
9. Valuation of Inventory on Financial Reports: The valuation of inventory is not always correctly reported. FY 2003 is the first year DoD reported this as a systemic weakness. The estimated correction date is 2nd Qtr, FY 2006.

Section 2 Financial Material Weaknesses

Material Weaknesses	FY First Reported	Targeted Correction Date	
		As of FY 2002 (Qtr / FY)	As of FY 2003 (Qtr / FY)
1. Adequate documentation does not always exist to support adjustments used to reconcile general ledger data to budgetary data. (Defense Finance and Accounting Service)	2003	N/A	1st / 2005

Section 2 Financial Material Weaknesses (Continued)			
Material Weaknesses	**FY First Reported**	**Targeted Correction Date**	
		As of FY 2002 (Qtr / FY)	**As of FY 2003** (Qtr / FY)
2. Policy for recording, reporting, collecting and reconciling accounts receivable from public and government sources is not always followed. (Defense Finance and Accounting Service)	2003	N/A	4th / 2004
3. DoD components do not properly monitor the estimation of accrued liabilities, when goods and services are provided. (Defense Finance and Accounting Service)	2003	N/A	2nd / 2004
4. Suspense account balances with the Treasury trial balances are not fully resolved and reconciled. (Defense Finance and Accounting Service)	1997	4th / 2003	4th / 2004
5. Appropriation balances in the accounting records do not always balance with the Treasury's balances and transaction level reconciliations are not always performed. (Defense Finance and Accounting Service)	1999	4th / 2003	4th / 2006
6. The actual loss of government funds could not always be fully identified because of improper disbursement transaction processing and inadequate documentation. (Defense Finance and Accounting Service)	2002	4th / 2003	1st / 2004
7. Due to inadequate supporting documents, freight supply payments are not properly pre-certified before they are made. (Defense Finance and Accounting Service)	1999	4th / 2003	4th / 2004
8. Telecommunication invoices are not always certified and obligations are not pre-validated prior to payment. (Defense Finance and Accounting Service)	2001	4th / 2003	1st / 2004
9. Payments less than $2,500 are not always certified and post payment audits are not always performed on electronic vendor payments to verify that the supporting documentation is correct. (Defense Finance and Accounting Service)	2002	4th / 2003	4th / 2004

Section 2 Financial Material Weaknesses (Continued)			
Material Weaknesses	**FY First Reported**	**Targeted Correction Date**	
		As of FY 2002 (Qtr / FY)	**As of FY 2003** (Qtr / FY)
10. Accounts receivable and accounts payable need to be actively managed and reduced to acceptable levels. (Defense Logistics Agency)	2002	4th / 2003	4th / 2004
11. Adequate management controls were not in place to detect or prevent disbursements in excess of obligations. (Office of the Under Secretary of Defense for Comptroller)	1994	4th / 2003	2nd / 2004
12. The military pay system has made invalid payments resulting in members separating from service in debt. (Defense Finance and Accounting Service)	2003	N/A	4th / 2004
Section 2 Non-Financial Material Weaknesses			
Material Weaknesses	**FY First Reported**	**Targeted Correction Date**	
		As of FY 2002 (Qtr / FY)	**As of FY 2003** (Qtr / FY)
13. DoD's capital investment process for information technology does not confirm that the best investments are selected, that they deliver expected benefits, or that the final product or service delivers what DoD expects. (Defense Information Systems Agency)	2002	4th / 2004	4th / 2004
14. Procedures are not always adequate to ensure that the prices paid for contracts are reasonable. (Defense Logistics Agency)	2001	3rd / 2003	4th / 2004
15. Payments for fuel charges incurred as part of the DoD Fleet Card have been delinquent. (Defense Logistics Agency)	2002	4th / 2003	4th / 2004
16. Controls for assessing which employees can receive mass transit benefits are not always adequate. (Defense Logistics Agency)	2003	N/A	4th / 2004

Section 2 Non-Financial Material Weaknesses (Continued)			
Material Weaknesses	**FY First Reported**	**Targeted Correction Date**	
		As of FY 2002 (Qtr / FY)	**As of FY 2003** (Qtr / FY)
17. Lack of oversight and guidance for cooperative programs with other countries has placed DoD's funds at risk of being allocated unnecessarily. (Defense Threat Reduction Agency)	2002	4^{th} / 2003	4^{th} / 2004
18. Better controls are needed to properly account for proceeds from submarine dismantlement scrap revenues. (Defense Threat Reduction Agency)	2001	4^{th} / 2003	4^{th} / 2004
19. Not all DoD components have completed essential continuity of operations plans. (Defense Threat Reduction Agency)	2002	4^{th} / 2003	1^{st} / 2004
20. Existing controls did not ensure that incidents of sexual assault among the cadet population were prevented or reported. (Air Force)	2003	N/A	4^{th} / 2005
21. Responsible DoD officials failed to secure host nation telecommunications agreements necessary to maximize the combat effectiveness of warfighters. (Air Force)	1999	4^{th} / 2004	4^{th} / 2004
22. Controls over management of spare parts were not always adequate to meet the warfighter mission. (Air Force)	1999	4^{th} / 2005	4^{th} / 2005
23. Better controls over efforts to provide safe areas surrounding air installations are needed to minimize public exposure from the hazards of aircraft operations. (Air Force)	2000	4^{th} / 2004	4^{th} / 2005
24. DoD has not established guidance or effective controls for processing line of duty and incapacitation pay, which adversely affects reservists who attempt to receive benefits after their duty obligation is met. (Army)	2002	4^{th} / 2004	4^{th} / 2005

Section 2 Non-Financial Material Weaknesses (Continued)			
Material Weaknesses	**FY First Reported**	**Targeted Correction Date**	
		As of FY 2002 (Qtr / FY)	**As of FY 2003** (Qtr / FY)
25. Current processes for managing workload, linking workload to dollars required, or predicting future manpower requirements have not been established. (Army)	1997	4th / 2005	4th / 2005
26. Processes for reporting the readiness for going to war are not always accurate and consistent. (Navy)	2002	4th / 2003	3rd / 2004
27. Some procedures for projecting training requirements have not been adequate, causing inefficient use of training resources and lost operational work years. (Navy)	1999	4th / 2005	4th / 2006
28. Better management of Active and Reserve recruiting functions is needed to maintain a ready force. (Navy)	2001	4th / 2003	4th / 2004
29. Controls were not adequate to ensure that the program manager of the Joint Chemical Agent Detector—an Acquisition Category III program—reported cost breaches to the acquisition program baseline. (Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics)	2003	N/A	1st / 2004
30. DoD risks improperly storing Privacy Act information on systems. (DoD Counterintelligence Field Activity)	2003	N/A	4th / 2004
31. Automated management tools are needed to ensure accountability of Reserve Component personnel from home station to duty station and back home. (Army)	1988	4th / 2003	4th / 2004

Section 4 System Nonconformance Weakness		
Material Weakness	**FY First Reported**	**Targeted Correction Date** (Qtr / FY)
1. DoD Financial Management Systems: "Convoluted" business processes that include superfluous process steps—driven by overlapping accounting, operational, and organizational structures; and further complicated by aged and disparate systems—have caused an inability to consistently provide reliable financial and managerial data for effective decision-making.	1998	4^{th} / 2006

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires federal agencies to conform to the United States Government Standard General Ledger, comply with all applicable federal accounting standards, establish financial management systems that meet government-wide standards and requirements, and support full disclosure of federal financial data, including the costs of federal programs and activities.

The Department does not fully comply with these requirements. However, as part of the Business Management Modernization Program, the Department teamed with IBM to develop an initial version of the business enterprise architecture in April 2003 to help transform our business processes and systems. The architecture helps describe how the Department's business processes and systems will integrate to ensure accurate and timely financial information is readily available for decision makers. When the architecture is fully implemented, the Department expects to meet all the requirements of this Act.

Inspector General Act Amendments

The Inspector General Act Amendments require explanation for all audit reports with recommendations open for more than 1 year. As of September 30, 2003, the Department had 218 audit reports open for more than 1 year. The total amount of monetary benefits that the Department can realize by implementing recommendations from these reports is $821 million. The Department closed out and implemented recommendations from 131 audit reports in fiscal year 2003 with claimed monetary benefits of $777 million.

Improper Payments Information Act

The Improper Payments Information Act requires federal agencies to report payments that should not have been made or that were made in an amount different than that required by law, regulation or contract. The

Office of Management and Budget Circular A-11, "Preparation, Submission and Execution of the Budget," includes provisions implementing this Act.

In accordance with these provisions, the Department is reviewing all programs and activities and identifying those which are susceptible to significant improper payments. The Department will then estimate the amount of improper payments and establish goals to reduce the amount of these payments. Programs that meet the threshold criteria established in this guidance will be reported in next year's report. Those not meeting the criteria will be tracked internally to ensure that all cost-effective measures are being taken to minimize the amount of improper payments.

For fiscal year 2003, the Office of Management and Budget Circular A-11 requires the Department of Defense to report improper payments for only two programs: Military Health Benefits and Military Retirement.

Military Health Benefits. The military health benefits program has numerous prepayment and postpayment controls built into the claims processing system to minimize improper payments.

One control is the claims edit system, which rebundles services that should be billed under a single comprehensive procedure code, but are broken out by medical service providers to increase reimbursement. This is a fraudulent practice condemned by national professional medical organizations.

An example of this practice is with a hysterectomy which bills out at a single comprehensive code that might pay $3,500. An unbundled claim would list multiple services to include exploratory surgery, tying of tubes, lysis of adhesions, and other procedures that would result in a payment of more than $10,000.

A cost avoidance of $74 million was realized in fiscal year 2002 and a cost avoidance of $143 million is projected for fiscal year 2003 as a result of military health benefits program rebundling edits.

The Department projected $53.484 million of improper payments (underpayments and overpayments) for the military health benefits program—purchased care program—in fiscal year 2003. This represents an error rate of approximately 1.36% of the $3.9 billion in military health benefits program payments made during fiscal year 2003.

Military Retirement. The Department conducts various types of prepayment and postpayment reviews for military retirement payments. One example is that all payments more than $9,000 made to retirees and more than $5,500 made to annuitants are reviewed. Another example is a monthly review of the retired pay file for similar social security numbers to minimize duplicate payments.

The Department projected $33.087 million of improper payments (underpayments and overpayments) for the Military Retirement Program in fiscal year 2003. This represents an error rate of 0.1% of the $32.7 billion in military retirement payments made during fiscal year 2003.

Homeland Security Act

This Act established the Department of Homeland Security and requires certain functions being performed by other federal agencies to be transferred to the Department of Homeland Security. In accordance with the provisions of this Act, the Department of Defense transferred two programs and their corresponding budgetary resources to the Department of Homeland Security in fiscal year 2003.

The Department of Defense transferred $1.022 billion in budgetary resources to the Department of Homeland Security. The breakout for these transfers follows:

- $416.5 million from DoD Bioterrorism Initiatives funds
- $400.0 million from the Iraqi Freedom Fund
- $75.6 million from the Defense Emergency Response Fund
- $130.7 million for the National Communication System

These budgetary resources will be used to pay for salary, benefits, contract, travel, supplies, and other program costs at the Department of Homeland Security.

President's Management Agenda

White House photo by Eric Draper

The Department continues progress towards accomplishing President George W. Bush's Management Agenda. The goal of this Agenda is to improve performance in five key federal management areas:

1. **Strategic Human Capital Management** is the transformation of how we employ, deploy, develop and evaluate the workforce. It places the right people in the right jobs to most effectively perform the work of the organization. Progress is achieved by meeting various objectives, such as aligning human capital strategies with mission goals and developing a results-oriented performance culture that rewards those who achieve desired results and correct performance deficiencies.

2. **Competitive Sourcing** is a process used to determine if a government function should be contracted out. Its objective is to improve the efficiency and effectiveness of activities the government performs so that taxpayers get more value for their tax dollar. Progress is measured by aspects, such as how well agencies implement competitive sourcing plans and the amount of cost savings realized.

3. **Improving Financial Performance** involves improving the quality and timeliness of financial information so that it can be used to reduce waste, fraud, and abuse and manage federal programs more effectively. Progress is achieved by meeting various objectives such as maintaining financial systems that meet federal requirements and obtaining favorable audit opinions on financial statements.

4. **Expanding Electronic Government** is designed to make better use of information technology investments to eliminate wasteful federal spending, reduce government's paperwork burden on citizens and businesses, and improve government response time to citizens. Progress is made by implementing government-wide or citizen-focused information technology systems, and developing business cases to support funding for all major system purchases.

5. **Budget and Performance Integration** seeks to link budget decisions to program performance. It gives dollars to programs that work and invokes reform, constraint, or cancellation of programs that do not work. Progress is attained by improving performance plans and results measurement, generation of regular reports that track spending to actual performance and outcome goals.

The Department's progress and current status ratings against the President's management goals in these five key federal management areas are depicted in the chart below. The scorecard employs a simple grading system: green for success, yellow for mixed results, and red for unsatisfactory.

The Department aggressively works each of these five key federal management areas and is making progress in each area. The Department improved its Current Status for Human Capital, Competitive Sourcing, and Budget and Performance Integration from red in fiscal year 2002 to yellow for fiscal year 2003.

The improvement for Human Capital was primarily the result of the Department executing its strategic plan by developing a de-layered, mission focused, and cost-effective organizational structure.

The improvement in the Competitive Sourcing initiative occurred because the Department achieved its goal of competing at least 15% (67,800) of its commercial functions (452,000) with the private sector.

The improvement for Budget and Performance Integration occurred due to the Department's implementation of the Office of Management and Budget's Program Assessment Rating Tool for more than 20% of DoD's programs in the fiscal year 2004 budget. This Tool assigns performance scores to these programs and will eventually be used as a basis for management's funding decisions.

President's Management Agenda Initiative	Current Status	Progress
Strategic Human Capital Management	Yellow	Green
Competitive Sourcing	Yellow	Yellow
Improving Financial Performance	Red	Green
Expanding Electronic Government	Red	Green
Budget and Performance Integration	Yellow	Green

Part 2:
Performance Information

Performance Information

Annual Performance Goals and Results

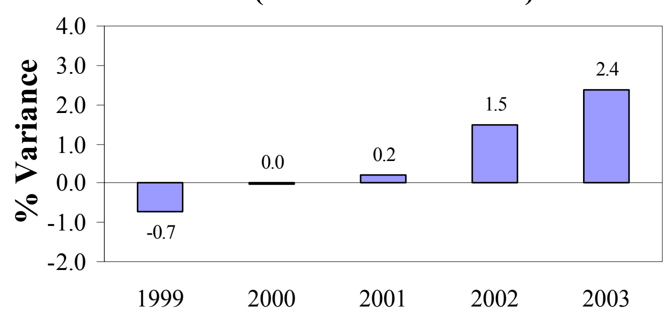
As discussed in Part 1, "Management Discussion and Analysis," the Department established fiscal year 2003 performance goals that display leading performance trends and demonstrate how well the Department is progressing toward achieving its strategic performance goals. These measures meet the conditions of the Government Performance and Results Act of 1993. Key performance results for fiscal year 2003 are provided below. Part 5, "Appendix A," of this report displays detailed information on these measures.

The performance goals, measures, and results mentioned below portray only some of the Department's fiscal year 2003 performance measures used to manage risk during the year. Performance results for all measures were not available in time for publication. However, they will be included in next year's report. In addition, the 2003 Annual Defense Report (http://www.defenselink.mil/execsec/adr2003/) describes the Department's ongoing efforts to develop additional performance measures and to further refine and improve the suite of metrics used to manage DoD's performance.

Reducing Force Management Risk

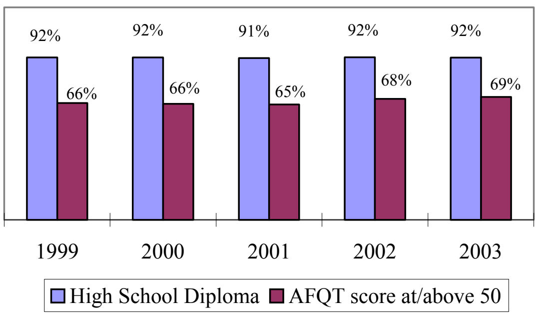
Outcome Goal: Maintain Manning Levels of Military Forces. The following graph displays the percentage variance for the number of military personnel—both active duty and reserves—authorized and those actually on-board. Consistent with statutory requirements, the Department's goal is to be within 2% of the number of military personnel authorized by Congress. The Department met this goal the past 4 years, but did not meet the goal for fiscal year 2003. By authority granted by executive order and law, the statutory requirements were waived, and Services exceeded the authorized number of personnel in order to have sufficient forces to fight the Global War on Terror.

Military Personnel (Actual vs. Authorized)



Outcome Goal: Meet Military Recruiting Goals. The Department's goal is that at least 90% of new military recruits have a high school diploma and that at least 60% have an Armed Forces Qualification Test (AFQT) score at or above the average score of 50. In the aggregate, the Department met these goals for fiscal year 2003, which is the 12th year in a row that the Department has met its aggregate level goals. The Military Departments' Active Component exceeded the high school diploma graduates goal and the AFQT score goal for fiscal year 2003. The Reserve Component did meet the AFQT score goal, but the Army National Guard and Naval Reserve achieved only 84% high school diploma graduates, and the Air National Guard was unable to report a satisfactory rate of high school diploma graduates due to data system difficulties.

Military Recruiting



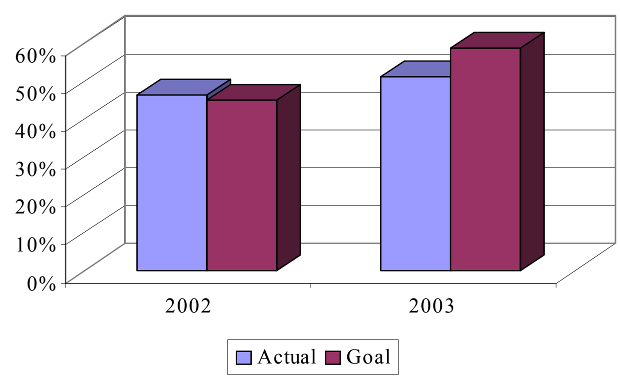
Outcome Goal: Meet Military Retention Goals. To maintain adequate force levels the Department actively monitors military retention trends. In the Active Component, the Department measures the retention rates, which is generally defined as the number of service members who elect to extend their commitments as a percentage of those eligible to reenlist. In the Reserve Component, the Department tracks attrition rates, which is the total number of Reserve Component personnel who leave service during the year divided by the average number of personnel on board for the year.

In fiscal year 2003, the Army and Navy met or exceeded all of their retention goals, but the Air Force and Marine Corps missed some of their goals. We expect the effects of an improving economy and the waning emotional patriotic high of decisive victory in Operation Iraqi Freedom will combine to increase pressure on our retention programs.

In addition, the Department met its fiscal year 2003 Reserve Component attrition goals, in the aggregate, with an overall attrition rate of 18.4%—the lowest since 1991. This was primarily due to the Reserve Component's ongoing support of the war on terrorism, as well as the implementation of "stop loss" programs that minimize attrition in certain military positions.

Outcome Goal: Satisfaction with Military Health Care. The Department's fiscal year 2003 goal was to meet or exceed the private sector civilian average for satisfaction with health plan (59%). While there has been substantial improvement in DoD's health plan satisfaction in fiscal year 2003 (from 46% to 51%), it did not meet the private sector civilian average, which also increased significantly during fiscal year 2003. One significant reason for DoD's improvement is better performance in the area of claims processing, where 99% of the claims are being processed within 30 days, compared to 97% for fiscal year 2002. In addition to claims processing, customer service and access to medical service improvements will be needed to achieve the ultimate goal of meeting and exceeding the civilian average.

"Very Satisfied" with Military Health Plan



Reducing Operational Risk

Outcome Goal: Joint Operations Concepts. The Joint Operations Concepts will describe how the Joint Force, to include the Army, Navy, Air Force, Marines and Special Operations forces, intends to operate across the entire range of military operations within the next 15 to 20 years. The Joint Operations Concepts were chartered to identify seven desired attributes and eight common core capabilities of the future joint military force. It links the strategy to capability-based planning, creates joint experimentation and transformation roadmaps, and is the foundation for developing and improving capabilities across the domains of air, land, sea, space, and information.

During 2003, the Department's Joint Operations Concepts were approved and four subordinate Joint Operating Concepts were developed: major combat operations, stability operations, homeland security, and strategic deterrence. The Department also defined five joint functional concepts: battlespace awareness, joint command and control, force application, focused logistics, and protection. These concepts will be sent to the Secretary of Defense for final approval in February 2004.

Outcome Goal: Security Cooperation. Prior to 2001, program plans for conducting overseas security cooperation activities, such as combined military exercises and military-to-military exchanges, were collected in Theater Engagement Plans prepared by the regional Combatant Commands. Theater Engagement Plan activities were linked to resources via a database that was only fiscally quantitative in nature. The Theater Engagement Plans did not describe how Combatant Command activities aligned with activities managed by the Defense Agencies. Accordingly, two years ago, the Department decided to restructure this approach and refocus the efforts of the Combatant Commands, the Military Departments, and Defense Agencies around a set of common regional security cooperation goals.

In April 2003, the Department issued new security cooperation guidance intended to guide the Department—and specifically the Combatant Commands—in developing fiscal year 2004 strategies that include qualitative performance goals. The Department will also develop quantitative measures of effectiveness that will be incorporated into the security cooperation strategies by fiscal year 2005.

Outcome Goal: Defense Readiness Reporting System: For many years, we have relied primarily on the classified Global Status of Resources and Training System reports maintained by all the military departments to track actual personnel levels, equipment stocks, and training performance against Military Department identified benchmarks. However, this System does not capture performance information for joint missions or for the full range of missions beyond a major regional contingency, such as those required to prosecute a successful war on terrorism.

Accordingly, the Department has undertaken a fundamental overhaul of its readiness reporting process. The Defense Readiness Reporting System successfully completed a proof-of-concept demonstration in fiscal year 2003, which prompted the Department to issue implementing guidance for these modern readiness assessment tools. This guidance contains specific activities for all DoD Components to begin implementing the vision behind Department-wide readiness.

The Department also began testing several automated tools to assess operational risk and measure shortfalls. These tools further highlight the shortcomings of current readiness systems. The results from these assessments, performed in days rather than the weeks needed by current processes, demonstrate significant promise in shaping the Department's readiness discussions in preparation for future contingencies. The Department selected a prime contractor to develop and implement the Enhanced Status of Resources and Training System with initial operational capability in fiscal year 2004 and full operational capability during fiscal year 2007. The Department has established performance goals to track the activities required to successfully implement this system Department-wide.

Reducing Future Challenges Risk

Outcome Goal: Experiment with New Warfare Concepts. The Department is crafting a Joint Experimentation Campaign Plan that will explore concepts developed both inside and outside of the Department that could improve how the Department commands and controls joint forces across the battle space in cities, jungles, mountains, or forests. Our goal is to set in motion a process of continuing transformation and a culture that will keep the United States several steps ahead of any potential adversaries.

In March 2003, we completed a Department-wide evaluation of the lessons-learned from Millennium Challenge 2000, the first joint exercise conducted by U.S. Joint Forces Command. In June 2003, the Chairman of the Joint Chiefs of Staff published joint experiment performance goals for fiscal years 2004 and 2005.

Also during fiscal year 2003, the Department's lead for joint experimentation, the U.S. Joint Forces Command, co-sponsored wargames and experiments with the Navy and the Army. In addition, U.S. Joint Forces Command conducted its own joint experiment. Each of these events focused on new warfighting concepts—the joint operational concepts and joint functional concepts described under Operational Risk earlier—that are part of the Department's transformation process. In December 2003, the Department completed its draft update of the Joint Experimentation Campaign Plan for fiscal year 2004.

Outcome Goal: Establish a Standing Joint Force Headquarters. The concept of organizing forces under a joint task force commander has been used to great effect since the Gulf War of 1990. However, each time we respond to a crisis, we must create these joint organizations from scratch, siphoning people and equipment from other commands—and when the emergency is over, these high-functioning units disband.

The Department is in the process of creating permanent joint headquarters for each of our combatant commands worldwide. These headquarters will be equipped with the most capable command, control, computers, communications, intelligence, and surveillance assets we have available. The permanent staff will be trained to a common standard and be expert about how joint forces function in battle.

In fiscal year 2003, the Department established a Functional Capability Review board, chaired by the Commander, U.S. Joint Forces Command to oversee implementation of the Standing Joint Force Headquarters. The U.S. Joint Forces Command developed a prototype and defined standard operating procedures for the Standing Joint Force Headquarters. The model concept for a Standing Joint Force Headquarters will be ready for testing by the end of fiscal year 2004, with the goal of fielding the model globally to regional Combatant Commands during fiscal year 2005.

Outcome Goal: Transform DoD Training. The dramatic transformation of America's strategic environment demands an equally dramatic transformation in how we prepare the force. Accordingly, the Department must also transform the methods used to train its military forces. On June 10, 2003, the Deputy Secretary of Defense signed the training transformation implementation plan (*www.t2net.org*). This plan provides a road map to developing and fielding dynamic, capabilities-based training to Active and Reserve Components; federal, state, and local agencies; and our international security partners, including nongovernmental organizations.

The Department completed one of three tasks scheduled for fiscal year 2003 by restructuring the implementation plan to focus on measuring training outputs instead of tracking ongoing developmental activities. Accordingly, beginning in fiscal year 2004, the Department will begin using output-oriented performance metrics to track progress toward achieving the goals outlined in the training transformation plan.

Outcome Goal: Monitor the Status of Defense Technology Objectives. Technological superiority has been, and continues to be, a cornerstone of the national military strategy. Technologies such as radar, jet engines, nuclear weapons, night vision, smart weapons, stealth, the Global Positioning System, and vastly more capable information management systems have changed warfare dramatically. Maintaining this technological edge has become even more important as the size of U.S. forces decreases and high-technology weapons are now readily available on the world market.

The Department's investments in science and technology are focused and guided through a series of Defense Technology Objectives. Each of these objectives highlights a specific technological advancement that will be developed or demonstrated, the anticipated date the technology will be available, and the specific benefits that should result from the technological advance.

Every two years, independent peer review panels composed of approximately six experts in relevant technical fields assess the Defense Technology Objectives for each program. At least two-thirds of the team members are from academia, private industry, and other U.S. Government agencies. The reviews are conducted openly; observation by stakeholders is welcomed. The teams assess progress against three factors—technical approach, funding, and technical progress.

The independent peer review panel rated 96% of the Department's Defense Technology Objectives as progressing satisfactorily for fiscal year 2003. This is well above the Department's goal of 70%. The Department has greatly exceeded this goal for several years now, however, due to the inherent high risk of failure in technology development, the goal will be maintained at 70%.

Reducing Institutional Risk

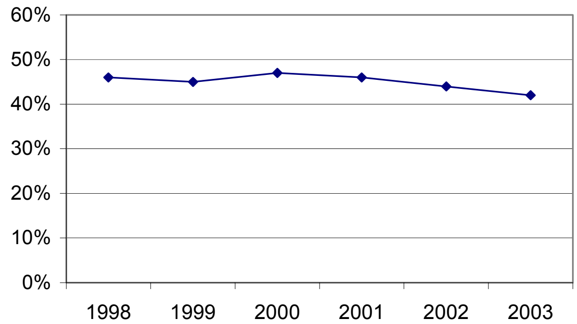
Outcome Goal: Reduce Major Defense Acquisition Program Cycle Time. Acquisition cycle time is the elapsed time, in months, from program initiation until the system attains initial operational capability—that is, when the product works as designed and is fielded to operational units. The Department measures the average cycle time across all major defense acquisition programs (new equipment or material systems that cost more than $365 million in fiscal year 2000 constant dollars to research and develop, and more than $2 billion to procure and field). Since more than a third of the annual defense budget goes to buying and operating major weapons systems, the Department must understand how quickly new technologies are moving from the drawing board to the field. This performance measure is a leading indicator of technology transfer—typically, the faster a program moves toward fielding, the quicker associated operational improvements can be introduced to the force, and the easier it is to control overall program costs.

During the 1960s, a typical acquisition took 7 years (84 months) from initiating research and development activities to achieving initial operating capability. By 1996, a similar acquisition required 11 years (132 months) from program start to initial operating capability. To reverse this trend, we have set a goal for reducing the average acquisition cycle time for major defense acquisition programs started since 1992. The goal is to reduce the cycle by 25%—to less than 99 months or about 8 years. Over the long term, we want to cut average cycle time to less than 5-1/2 years (66 months) for all major defense acquisition programs started after fiscal year 2001. To achieve that objective, the Department is introducing improvements to development and production schedules similar to those it initiated for managing system performance and cost.

The Department restructured a significant number of programs during fiscal year 2003. In addition, during the program and budget reviews, several programs, such as the Black Hawk helicopter upgrade, Land Warrior soldier system, and the Wideband Gapfiller Satellite, were realigned to improve schedule estimates, which extended their cycle times. Although only a few such programs were extended, this caused the Department's overall average cycle time to increase from 103 months in fiscal year 2002 to 104 months in fiscal year 2003.

Outcome Goal: Reduce Percentage of DoD Budget Spent on Infrastructure. The share of the defense budget devoted to infrastructure is one of the principal measures the Department uses to gauge progress toward achieving its infrastructure reduction goals. A downward trend in this metric indicates that the balance is shifting toward less infrastructure and more mission programs. The Department estimates that it allocated about 42% of the defense's budget to infrastructure activities in fiscal year 2003, down from 44% last year.

Percentage of DoD Budget Spent on Infrastructure (lagged indicator)



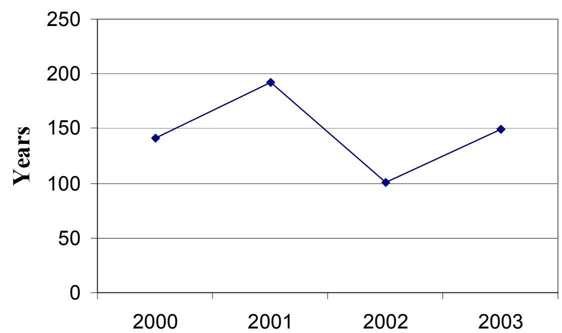
(Note: This is a lagged indicator since the Department updates the percentage of the budget spent on infrastructure each time the President's budget projections are revised. Also, the Department normalizes previous years' data to adjust for the effect of definitional changes that may generate inaccurate data. Because of these adjustments, there may be slight shifts upward or downward in previously reported results.)

Outcome Goal: Fund to a 67-Year Recapitalization Rate by 2007. The Facilities Recapitalization Metric measures the rate at which an inventory of facilities is being "recapitalized"—that is, modernized or restored. Recapitalization may mean a facility has been totally replaced or recapitalization can occur in increments over time, until the facility is upgraded sufficiently to meet acceptable standards.

The Department's recapitalization performance goal is based on the average expected service life of its overall facilities inventory. For example, the expected service life of a pier is 75 years, and the expected service life of a dental clinic is 50 years—provided the facilities are fully sustained during that time. The average of all expected service life benchmarks, weighted by the value of the facilities represented by each benchmark, is 67 years.

The Department had a recapitalization rate of 149 years for fiscal year 2003 and has made progress in reducing the 200+ year recapitalization rate average in 1999. However, it is still well above the goal of a 67-year recapitalization rate.

Facilities Recapitilization Rate

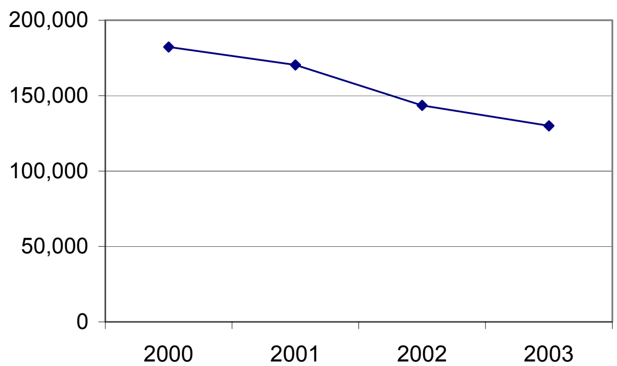


Outcome Goal: Eliminate Inadequate Family Housing by 2007. As part of our commitment to improving the quality of life for service members and their families, the Army, Navy, and Marine Corps are committed to eliminating inadequate family housing by the end of fiscal year 2007; the Air Force will reach that goal within the continental United States in 2008 and overseas by 2009.

Each military department has developed a Family Housing Master Plan that outlines, by year, what needs to happen to achieve these goals within the Department's $4 billion annual budget for military housing.

To date, the Department has upgraded about 38,000 family housing units through privatization. During fiscal year 2003, more than 14,000 family housing units were revitalized, demolished, or placed in the hands of private-sector firms for refurbishment and management. However, 129,955 (51%) of all family housing units lived in by service members during fiscal year 2003 rate as "inadequate" because they needed a major repair, a key component (like a furnace or kitchen) replaced, or were so rundown they needed complete renovation.

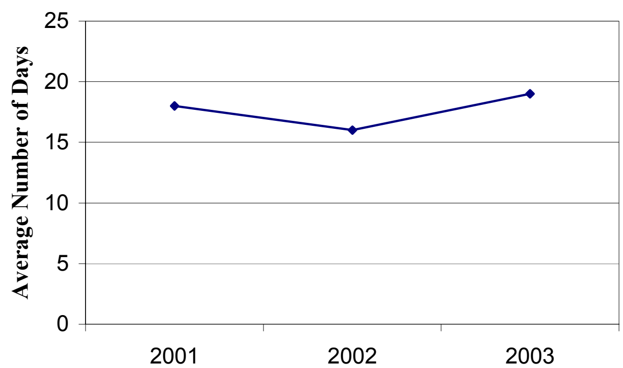
Number of Inadquate Family Housing Units



Outcome Goal: Reduce Customer Wait Time to 15 days, on Average, by fiscal year 2004. In the past, good logistics performance meant holding large inventories—today, all Military Departments have agreed on a common set of business rules for monitoring the performance of the entire logistics enterprise. As part of this common set of business rules, the Department measures internal DoD customer wait time to assess its logistics performance. Customer wait time is modeled after commercial industry best practices. Customer wait time is measured as the elapsed time from order to receipt when a customer orders supplies or materials. This measure allows the Department to monitor the time it takes to fulfill these orders, which indicates the entire logistics system's responsiveness to internal DoD customers' needs.

As of June 30, 2003, the Department's fiscal year 2003 customer wait time was 19 days. The Department projects that it will not meet its 16 days goal for fiscal year 2003. This is mainly due to the increase in demand for critical items and delays in closing out transactions caused by Operation Iraqi Freedom.

Customer Wait Time



Part 3:
Financial Information

Principal Financial Statements and Notes

Department of Defense
Agency Wide
CONSOLIDATED BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	2003 Consolidated	2002 Consolidated Restated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 251,544.1	$ 205,278.8
b. Non-Entity Seized Iraqi Cash	278.1	0.0
c. Non-Entity-Other	239.8	537.4
2. Investments (Note 4)	205,376.0	180,804.5
3. Accounts Receivable (Note 5)	1,066.6	1,121.9
4. Other Assets (Note 6)	105.0	0.1
5. Total Intragovernmental Assets	$ 458,609.6	$ 387,742.7
B. Cash and Other Monetary Assets (Note 7)	$ 1,534.9	$ 742.7
C. Accounts Receivable (Note 5)	7,299.9	6,341.9
D. Loans Receivable (Note 8)	64.0	44.2
E. Inventory and Related Property (Note 9)	194,174.1	146,198.6
F. General Property, Plant and Equipment (Note 10)	446,308.9	122,569.7
G. Investments (Note 4)	217.8	0.0
H. Other Assets (Note 6)	21,729.6	18,245.8
2. TOTAL ASSETS	$ 1,129,938.8	$ 681,885.6
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 101.3	$ 85.8
2. Debt (Note 13)	698.2	874.3
3. Environmental Liabilities (Note 14)	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	9,739.1	8,213.6
5. Total Intragovernmental Liabilities	$ 10,538.6	$ 9,173.7
B. Accounts Payable (Note 12)	$ 27,863.8	$ 24,182.4
C. Military Retirement Benefits and Other Employment-Actuarial Liabilities (Note 17)	1,429,565.5	1,328,826.5
D. Environmental Liabilities (Note 14)	61,490.6	59,353.1
E. Loan Guarantee Liability (Note 8)	25.9	10.8
F. Other Liabilities (Note 15 & Note 16)	29,109.3	29,795.3
G. Debt Held by Public (Note 13)	0.0	0.0
4. TOTAL LIABILITIES	$ 1,558,593.7	$ 1,451,341.8
5. NET POSITION		
A. Unexpended Appropriations (Note 18)	$ 192,955.8	$ 177,282.6
B. Cumulative Results of Operations	(621,610.7)	(946,738.8)
6. TOTAL NET POSITION	$ (428,654.9)	$ (769,456.2)
7. TOTAL LIABILITIES AND NET POSITION	$ 1,129,938.8	$ 681,885.6

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2003 and 2002

($ in Millions)

	2003 Consolidated		2002 Consolidated Restated	
1. Program Costs				
A. Intragovernmental Gross Costs	$	11,748.3	$	10,714.1
B. (Less: Intragovernmental Earned Revenue)		(13,239.0)		(15,586.8)
C. Intragovernmental Net Costs	$	(1,490.7)	$	(4,872.7)
D. Gross Costs With the Public		526,288.4		398,956.8
E. (Less: Earned Revenue From the Public)		(12,507.1)		(13,876.7)
F. Net Costs With the Public	$	513,781.3	$	385,080.1
G. Total Net Cost	$	512,290.6	$	380,207.4
2. Cost Not Assigned to Programs		0.0		0.0
3. (Less:Earned Revenue Not Attributable to Programs)		0.0		0.0
4. Net Cost of Operations	$	512,290.6	$	380,207.4

Department of Defense

Agency Wide

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2003 and 2002

($ in Millions)

	2003 Consolidated	2002 Consolidated Restated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ (946,947.7)	$ (874,049.9)
2. Prior period adjustments (+/-)	383,283.8	(61,760.0)
3. Beginning Balances, as adjusted	(563,663.9)	(935,809.9)
4. Budgetary Financing Sources:		
4.A. Appropriations received	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	(13.0)	0.0
4.D. Appropriations used	457,461.9	361,217.8
4.E. Nonexchange revenue	931.2	1,236.5
4.F. Donations and forfeitures of cash and cash equivalents	24.4	24.1
4.G. Transfers-in/out without reimbursement (+/-)	1,329.2	(706.7)
4.H. Other budgetary financing sources (+/-)	(2,867.4)	3,225.5
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	4.6	0.3
5.B. Transfers-in/out without reimbursement (+/-)	(6,702.1)	744.3
5.C. Imputed financing from costs absorbed by others	3,866.9	3,520.0
5.D. Other (+/-)	308.1	16.7
6. Total Financing Sources	454,343.8	369,278.5
7. Net Cost of Operations (+/-)	512,290.6	380,207.4
8. Ending Balances	$ (621,610.7)	$ (946,738.8)

Department of Defense
Agency Wide
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2003 Consolidated	2002 Consolidated Restated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 177,282.6	$ 163,190.6
2. Prior period adjustments (+/-)	0.0	1,553.3
3. Beginning Balances, as adjusted	177,282.6	164,743.9
4. Budgetary Financing Sources:		
4.A. Appropriations received	477,036.7	365,636.4
4.B. Appropriations transferred-in/out (+/-)	1,217.8	9,389.2
4.C. Other adjustments (rescissions, etc) (+/-)	(5,137.1)	(2,707.4)
4.D. Appropriations used	(457,444.2)	(359,779.5)
4.E. Nonexchange revenue	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0
5.D. Other (+/-)	0.0	0.0
6. Total Financing Sources	15,673.2	12,538.7
7. Net Cost of Operations (+/-)	0.0	0.0
8. Ending Balances	$ 192,955.8	$ 177,282.6

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2003 and 2002

($ in Millions)

	2003 Combined	2002 Combined Restated
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$ 546,761.4	$ 415,113.9
1b. Borrowing authority	0.0	0.0
1c. Contract authority	28,109.0	2,318.0
1d. Net transfers (+/-)	1,000.3	986.6
1e. Other	0.0	0.0
2. Unobligated balance:		
2a. Beginning of period	217,722.3	210,128.9
2b. Net transfers, actual (+/-)	204.3	9,107.7
2c. Anticipated Transfers balances	0.0	0.0
3. Spending authority from offsetting collections:		
3a. Earned	0.0	0.0
1. Collected	135,587.2	117,942.4
2. Receivable from Federal sources	(714.6)	(1,116.6)
3b. Change in unfilled customer orders	0.0	0.0
1. Advance received	(30.6)	185.9
2. Without advance from Federal sources	11,000.9	3,576.2
3c. Anticipated for the rest of year, without advances	0.0	0.0
3d. Transfers from trust funds	0.0	0.0
3e. Subtotal	145,842.9	120,587.9
4. Recoveries of prior year obligations	22,841.9	15,293.1
5. Temporarily not available pursuant to Public Law	0.0	0.0
6. Permanently not available	(33,730.4)	(7,954.7)
7. Total Budgetary Resources	$ 928,751.7	$ 765,581.4

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2003 and 2002

($ in Millions)

		2003 Combined		2002 Combined Restated
STATUS OF BUDGETARY RESOURCES				
8. Obligations incurred:				
8a. Direct	$	522,562.4	$	420,239.6
8b. Reimbursable		147,147.8		128,030.3
8c. Subtotal		669,710.2		548,269.9
9. Unobligated balance:				
9a. Apportioned		55,052.0		40,917.6
9b. Exempt from apportionment		180,704.3		171,560.5
9c. Other available		(0.1)		(0.1)
10. Unobligated Balances Not Available		23,285.3		4,833.5
11. Total, Status of Budgetary Resources	$	928,751.7	$	765,581.4
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
12. Obligated Balance, Net - beginning of period	$	181,919.4	$	162,829.3
13. Obligated Balance transferred, net (+/-)		(23.9)		0.0
14. Obligated Balance, Net - end of period:				
14a. Accounts receivable		(10,216.4)		(10,929.3)
14b. Unfilled customer order from Federal sources		(38,422.1)		(27,421.1)
14c. Undelivered orders		213,597.8		176,183.8
14d. Accounts payable		49,412.6		45,789.1
15. Outlays:				
15a. Disbursements		604,105.8		509,723.7
15b. Collections		(135,556.8)		(118,128.2)
15c. Subtotal		468,549.0		391,595.5
16. Less: Offsetting receipts		(43,294.0)		(45,593.8)
17. Net Outlays	$	425,255.0	$	346,001.7

Department of Defense

Agency Wide

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2003 and 2002

($ in Millions)

	2003 Combined	2002 Combined Restated
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$ 0.0	$ 0.0
1b. Borrowing authority	50.5	44.2
1c. Contract authority	0.0	0.0
1d. Net transfers (+/-)	0.0	0.0
1e. Other	0.0	0.0
2. Unobligated balance:		
2a. Beginning of period	104.0	6.0
2b. Net transfers, actual (+/-)	0.0	0.0
2c. Anticipated Transfers balances	0.0	0.0
3. Spending authority from offsetting collections:		
3a. Earned	0.0	0.0
1. Collected	56.2	22.3
2. Receivable from Federal sources	(90.0)	90.6
3b. Change in unfilled customer orders	0.0	0.0
1. Advance received	0.0	0.0
2. Without advance from Federal sources	35.8	0.0
3c. Anticipated for the rest of year, without advances	0.0	0.0
3d. Transfers from trust funds	0.0	0.0
3e. Subtotal	2.0	112.9
4. Recoveries of prior year obligations	1.9	0.0
5. Temporarily not available pursuant to Public Law	0.0	0.0
6. Permanently not available	(0.2)	0.0
7. Total Budgetary Resources	$ 158.2	$ 163.1

Department of Defense
Agency Wide
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2003 Combined		2002 Combined Restated	
STATUS OF BUDGETARY RESOURCES				
8. Obligations incurred:				
8a. Direct	$	136.4	$	142.4
8b. Reimbursable		0.0		0.0
8c. Subtotal		136.4		142.4
9. Unobligated balance:				
9a. Apportioned		1.3		0.7
9b. Exempt from apportionment		0.0		0.0
9c. Other available		(0.1)		0.0
10. Unobligated Balances Not Available		20.6		20.0
11. Total, Status of Budgetary Resources	$	158.2	$	163.1
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
12. Obligated Balance, Net - beginning of period	$	(95.1)	$	0.0
13. Obligated Balance transferred, net (+/-)		0.0		0.0
14. Obligated Balance, Net - end of period:				
14a. Accounts receivable		(0.6)		(90.6)
14b. Unfilled customer order from Federal sources		(35.8)		0.0
14c. Undelivered orders		66.3		89.6
14d. Accounts payable		0.0		0.7
15. Outlays:				
15a. Disbursements		63.6		52.0
15b. Collections		(56.2)		(22.3)
15c. Subtotal		7.4		29.7
16. Less: Offsetting receipts		0.0		0.0
17. Net Outlays	$	7.4	$	29.7

Department of Defense
Agency Wide
COMBINED STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2003 Combined	2002 Combined Restated
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 669,846.6	$ 548,412.3
2. Less: Spending authority from offsetting collections and recoveries (-)	(168,688.7)	(135,993.9)
3. Obligations net of offsetting collections and recoveries	501,157.9	412,418.4
4. Less: Offsetting receipts (-)	(43,294.0)	(45,593.8)
5. Net obligations	457,863.9	366,824.6
Other Resources		
6. Donations and forfeitures of property	4.6	0.3
7. Transfers in/out without reimbursement (+/-)	(6,702.1)	24.1
8. Imputed financing from costs absorbed by others	3,866.9	3,520.0
9. Other (+/-)	308.1	(475.5)
10. Net other resources used to finance activities	(2,522.5)	3,068.9
11. Total resources used to finance activities	455,341.4	369,893.5
Resources Used to Finance Items not Part of the Net Cost of Operations		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(37,435.1)	(28,342.6)
12b. Unfilled Customer Orders	11,006.1	3,762.3
13. Resources that fund expenses recognized in prior periods	(686.3)	(7,317.5)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	929.3	819.3
15. Resources that finance the acquisition of assets	(72,984.9)	(9,075.6)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations		
16a. Less: Trust or Special Fund Receipts Related to	0.0	0.0
16b. Other (+/-)	6,623.6	(1.1)
17. Total resources used to finance items not part of the net cost of operations	(92,547.3)	(40,155.2)
18. Total resources used to finance the net cost of	362,794.1	329,738.3

Department of Defense

Agency Wide

COMBINED STATEMENT OF FINANCING

For the periods ended September 30, 2003 and 2002

($ in Millions)

	2003 Combined	2002 Combined Restated
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future		
19. Increase in annual leave liability	662.7	478.3
20. Increase in environmental and disposal liability	2,033.6	1,712.9
21. Upward/Downward reestimates of credit subsidy expense	0.0	0.0
22. Increase in exchange revenue receivable from the the public	(6.6)	(3.3)
23. Other (+/-)	95,403.2	34,270.2
24. Total components of Net Cost of Operations that will require or generate resources in future periods	98,092.9	36,458.1
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	55,274.7	7,229.5
26. Revaluation of assets or liabilities (+/-)	6,299.4	(377.4)
27. Other (+/-)	(10,170.5)	7,158.9
28. Total components of Net Cost of Operations that will not require or generate resources	51,403.6	14,011.0
29. Total components of net cost of operations that will not require or generate resources in the current	149,496.5	50,469.1
30. Net Cost of Operations	512,290.6	380,207.4

Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2003 Combined	2002 Combined
1.SOURCE OF COLLECTIONS		
A. Deposits by Foreign Governments	$ 9,971.6	$ 10,732.3
B. Seized Iraqi Cash	808.9	0.0
C. Other Collections	0.0	0.0
D. Total Cash Collections	$ 10,780.5	$ 10,732.3
E. Accrual Adjustments (+/-)	$ 0.7	$ 0.2
F. Total Custodial Collections	$ 10,781.2	$ 10,732.5
2.DISPOSITION OF COLLECTIONS		
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 10,118.8	$ 10,570.0
B. Seized Assets Disbursed on behalf of Iraqi People	530.8	0.0
C. Increase (Decrease) in Amounts to be Transferred	(146.5)	162.5
D. Collections Used for Refunds and Other Payments	0.0	0.0
E. Retained by The Reporting Entity	0.0	0.0
F. Seized Assets Retained for Support of the Iraqi People	278.1	0.0
G. Total Disposition of Collections	$ 10,781.2	$ 10,732.5
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.0	$ 0.0

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with the "DoD Financial Management Regulation," Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the Department is responsible except that information relative to classified assets, programs, and operations has been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The DoD's financial statements are in addition to the financial reports also prepared by the Department pursuant to OMB directives that are used to monitor and control the DoD's use of budgetary resources.

The Department is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. The Department derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the Department cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The Department continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. The Department provides a more detailed explanation of these financial statement elements in the applicable footnote.

1.B. Mission of the Reporting Entity

The National Security Act of 1947 created The Department of Defense (DoD) on September 18, 1947. The overall mission of the Department is to organize, train, and equip armed forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. Fiscal year (FY) 2003 is the eighth year that the Department has prepared audited DoD Agency-wide financial statements required by the CFO Act and GMRA. The reporting entities within the Department changed to facilitate this reporting requirement. Auditors will be issuing opinions on the financial statements of the following stand-alone reporting entities: (1) Army General Fund, (2) Army Working Capital Fund, (3) Navy General Fund, (4) Navy Working Capital Fund, (5) Air Force General Fund, (6) Air Force Working Capital Fund, (7) Military Retirement Fund, (8) DoD Medicare-Eligible Retiree Health Care Fund (new for FY 2003), and (9) U.S. Army Corps of Engineers (Civil Works).

In addition to the nine stand-alone reporting entities, separate columns in the combining/consolidating statements are included with the financial information of the "Other Defense Organizations General Funds" or "Other Defense Organizations Working Capital Funds." The Office of the Inspector General will not issue separate audit opinions on the statements of the Other Defense Organizations; instead the financial statements and records of those organizations will be included in the audit performed to support the opinion issued on the DoD Agency-wide financial statements.

Also, the Department requires the following Defense Agencies to prepare internal stand-alone annual financial statements to be audited by certified public accounting firms: (1) Defense Logistics Agency, (2) Defense Finance and Accounting Service (DFAS), (3) Defense Information Systems Agency, (4) Defense Contract Audit Agency, (5) Defense Commissary Agency, (6) Defense Security Service, and (7) Defense Threat Reduction Agency.

1.C. Appropriations and Funds

The Department receives its appropriations and funds as general, working capital (revolving funds), trust, special, and deposit funds. The Components use these appropriations and funds to execute their missions and report on resource usage.

- General funds are used for financial transactions arising under congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

- Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

- Special funds are accounts for government receipts earmarked for a specific purpose.

- Deposit funds generally are used to: (1) hold assets for which the Department is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

- Working Capital funds (WCF) (revolving funds) receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Defense Working Capital Fund operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

1.D. Basis of Accounting

For FY 2003, the Department's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. Most of the Department's legacy systems were designed to record on a budgetary basis.

The Department has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of the Department's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DoD's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from nonfinancial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities.

In addition, the Department identifies programs based upon the major appropriation groups provided by Congress. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

1.E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds (annual and a multi-year basis). When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The Department recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Under the reimbursable order process, the Department recognizes revenue when earned.

Depot Maintenance and Ordnance Working Capital Funds (WCF) recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include non-monetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in a port. DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the Department's financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Department's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. The Department's expenditures for capital and other long-term assets are not recognized as operating expenses until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made. The Departments adjust operating expenses as a result of the elimination of balances between DoD Components. See Note 19.I., Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

1.G. Accounting for Intra-governmental Activities

The Department as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the Department as though the agency was a stand-alone entity.

- Public Debt

  The Department's proportionate share of public debt and related expenses of the federal government are not included. The federal government does not apportion debts and its related costs to federal agencies. The DoD's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

- Civilian/ Military Retirement Systems

  The Department's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) while the Military Retirement System (MRS) covers military personnel. Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The Department funds a portion of the civilian and military pensions. Reporting civilian pensions under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The Department recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

- Actuarial Liability

  The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the DoD financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column and the Medicare-eligible health care benefits in that Fund's column of the DoD Agency-wide consolidating/combining statements.

- Inter/Intra Governmental Elimination

  Preparation of reliable financial statements requires the elimination of transactions occurring between entities within the Department or between two or more federal agencies. However, the Department, as well as the rest of the federal government, cannot accurately identify all Intragovernmental transactions by customer because our systems do not track buyer and seller data needed to match related transactions. For FY 1999 and beyond, seller entities within the Department provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD Intragovernmental balances were then eliminated.

  The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling Intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The Department, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," issued October 2002 and updated October 2003, for reconciling Intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

1.I. Funds with the U.S. Treasury

The Department's financial resources are maintained in U.S. Treasury accounts. DFAS, Military Services, U.S. Army Corps of Engineers (USACE) disbursing stations, and the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the Department's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. See Note 3, Fund Balance with Treasury for material disclosure. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

1.J. Foreign Currency

The Department conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify currency fluctuations.

1.K. Accounts Receivable

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. See Note 5, Accounts Receivable for material disclosure.

1.L. Loans Receivable. As Applicable.

The Department of Defense operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Statute 186, Section 2801, that includes a series of authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars; make efficient use of limited resources; and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually, or in combination. They include guarantees, both loan and rental; conveyance/leasing of existing property and facilities; differential lease payments; investments, both limited partnerships and stock/bond ownership; and direct loans. In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

1.M. Inventories and Related Property

Effective October 1, 2002, Statement of Federal Financial Accounting Standards No. 23*, Eliminating the Category National Defense Property, Plant, and Equipment*, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). The standard renames National

Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Likewise, military equipment (previously referred to as National Defense Property, Plant, and Equipment) also includes items which will now be classified as Operating Materials and Supplies.

Implementation of the new accounting principles requires the adjustment of the October 1, 2002, Operating Materials and Supplies balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed and is discussed further in Note 9.

The predominate amount of the Department's inventories are currently reported at an approximation of historical cost using Latest Acquisition Cost (LAC) adjusted for holding gains and losses. Approximately 5 percent of inventories are now reported at moving average cost (MAC) in accordance with the Department's new policy which was disseminated in July 2001.

The Latest Acquisition Cost method is used because legacy inventory systems were designed for material management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). As noted above, utilizing new systems development processes, Components of the Department have transitioned, and are continuing to transition, inventory to the moving average cost method. Once completely implemented, the Department should be in full compliance with SFFAS No. 3.

SFFAS No. 3 distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds material based on military need and support for contingencies. Therefore, the Department does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the Department uses the purchase method - that is, materials and supplies are expensed when purchased. For FY 2003, the Department reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deemed that the item is in the hands of the end user.

The Department implemented new policy in FY 2002 to account for condemned material, only, as “Excess, Obsolete, and Unserviceable.” The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as “Excess, Obsolete, and Unserviceable,” is included in “Held for Use” or “Held for Repair” categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.

1.N. Investments in U.S. Treasury Securities

The Department reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts amortize into interest income over the term of the investment using the effective interest rate method or another method obtaining similar results. The Department intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in both marketable and non-marketable securities. Marketable securities are investments trading on a public market. The two types of non-marketable securities are par value and market based Intragovernmental securities. The Bureau of Public Debt issues non-marketable Par Value Intragovernmental Securities. Non-marketable, Market Based Intragovernmental Securities mimic marketable securities, but are not traded publicly. See Note 4 for material disclosures.

1.O. General Property, Plant and Equipment

Statement of Federal Financial Accounting Standards No. 23*, Eliminating the Category National Defense Property, Plant, and Equipment*, establishes new generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades, for accounting periods beginning after September 30, 2002.

Until this change in accounting principle, the acquisition costs for military equipment were classified as National Defense Property, Plant, and Equipment (PP&E) and were expensed in the period incurred. Implementation of this new accounting principle required the Department to adjust the October 1, 2002 General PP&E balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed. As discussed further in Note 10, General PP&E, the adjustment was based on data provided by the Bureau of Economic Analysis at the Department of Commerce and is not in compliance with GAAP.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. Also, DoD requires capitalization of improvement costs over the DoD capitalization threshold of $100,000 for General PP&E. The Department depreciates all General PP&E, other than land, on a straight-line basis.

Prior to FY 1996, General PP&E was capitalized if it had an acquisition cost of $15,000, $25,000, and $50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below $100,000 were written off General Fund financial statements in FY 1998. See Note 10, General PP&E, Net for material disclosures.

The United States Army Corps of Engineers (USACE) Civil Works General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals $25,000 (one exception is all buildings and structures related to hydro- power projects are capitalized regardless of cost.) During 2003 the Corps increased its buildings and structures threshold to $25K (from $0) for all Civil Works Appropriations with the exception of Revolving Fund and Power Marketing Agency (PMA) assets. All Civil Works Appropriations Buildings and Structures currently capitalized under $25K (excluding Revolving Fund and PMA) were expensed in FY 2003 and removed from Corps of Engineers Financial Management System (CEFMS). Starting in FY 2004 all Civil Works Buildings and Structures over $25K will be expensed except for PMA assets.

Government Equipment in the Hands of Contractors

When it is in the best interest of the government, the Department provides to contractors government property necessary to complete contract work. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the Department's Balance Sheet.

The Department completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the Department currently reports only government property, maintained in the DoD's property systems, in the possession of contractors.

To bring DoD closer to full compliance with federal accounting standards, the Department has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards.

1.P. Advances and Prepayments

The Department records payments in advance of the receipt of goods and services as advances or prepayments and reports them as assets on the Balance Sheet. In addition, when the department receives the related goods and services it recognizes advances and prepayments as expenditures and expenses.

1.Q. Leases

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the Department records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The Department records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair value. The Department deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the Department classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

1.R. Other Assets

The Department conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Department provides financing payments. One type of financing payment that the Department makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

In addition, the Federal Acquisition Regulations allow the Department to make financing payments under fixed price contracts that are not based on a percentage of completion. The Department reports these financing payments as advances or prepayments in the "Other Assets" line item. The Department treats these payments as advances or prepayments because the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the advance.

The Department has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The Department concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering appropriate actions.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the Department. The uncertainty will be resolved when one or more future events occur or fail to occur. The DoD recognizes contingencies as liabilities when past events or exchange transactions occur, a future loss is probable and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The Department's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Department's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment" recognition of an anticipated environmental disposal liability commences when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon the Department's policy, which is consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government". The Department agrees to the recognition of nonenvironmental disposal liability for military equipment nuclear powered assets when placed into service. Such amounts are developed in conjunction with, and not easily separately identifiable from, environmental disposal costs. See Notes 14 and 15 for material disclosures.

1.T. Accrued Leave

The Department reports civilian annual leave and military leave that has been accrued and not used as of the balance sheet date as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.

1.U. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

- Unexpended Appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

- Cumulative Results of Operations represents the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas obtained through various international treaties and agreements negotiated by the Department of State. DoD purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. The DoD's fixed assets decrease by not renewing a treaty or not reaching agreements. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is prohibited, losses are recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

1.W. Comparative Data

Financial statement fluctuations greater than ten percent between year-end FY 2002 and year-end FY 2003 are explained within the Notes to the Financial Statements.

1.X. Unexpended Obligations

The Department obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods/services not yet delivered.

1.Y. Problem Disbursements

The elimination of problem disbursements is one of the highest financial management priorities of the Department. Problem disbursements are disbursements made that can not be matched to an obligation or that exceed an obligation amount in the accounting systems. Efforts are underway to improve systems and processes to resolve and prevent problem disbursements. See Note 21B, Disclosures Related to Problem Disbursements, In-Transits Disbursements, Suspense/Budget Clearing Accounts for additional disclosures.

Note 2.	Nonentity Assets

As of September 30,	2003	2002
(Amounts in millions)		
1. Intragovernmental Assets		
A. Fund Balance With Treasury	$ 517.9	$ 537.3
B. Investments		
C. Accounts Receivable	2.0	5.4
D. Other Assets		
E. Total Intragovernmental Assets	**$ 519.9**	**$ 542.7**
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	$ 1,393.0	$ 578.2
B. Accounts Receivable	5,063.4	4,139.9
C. Loans Receivable		
D. Inventory and Related Property		
E. General PP&E		
F. Other Assets	126.0	125.0
G. Total Non-Federal Assets	**$ 6,582.4**	**$ 4,843.1**
3. Total Non-Entity Assets	**$ 7,102.3**	**$ 5,385.8**
4. Total Entity Assets	**$ 1,122,836.5**	**$ 676,499.8**
5. Total Assets	**$ 1,129,938.8**	**$ 681,885.6**

Other information:

Asset accounts are categorized as entity or nonentity. Entity assets consist of resources that the Department has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets for which the Department maintains stewardship accountability and responsibility to report, but are not available for use in the operations.

Other Disclosures

Nonentity Fund Balance with Treasury

Nonentity fund balance with treasury is comprised of $386.8 million in deposits and suspense accounts.

Iraqi custodial funding of $278.1 million is also included in nonentity fund balance with treasury. Iraqi custodial funding connotes Iraqi cash seized by coalition forces during Operation Iraqi Freedom. It will be used in support of the Iraqi people.
See Notes 3 and 23 for additional information.

Finally, nonentity fund balance with treasury includes net funds (funds collected less funds distributed) of the Foreign Military Sales Trust Fund (FMSTF). Under authority of the Arms Export and Control Act, the FMSTF receives collections from foreign governments that are dedicated specifically to FMS purchases.

Nonentity Intra-Governmental Accounts Receivable

The Department is reporting $2.0 million as nonentity intra-governmental accounts receivable. These are receivables from cancelled year appropriations. They will be returned to the Treasury as miscellaneous receipts once collected.

Nonentity Cash and Other Monetary Assets

Nonentity cash and other monetary assets consists of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statements of Accountability reported by DoD Disbursing Officers. Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions.

Nonentity Non-Federal Accounts Receivable

Non-Federal receivables are primarily related to Navy General Fund advance payments made to contractors and associated accrued interest, which remains in litigation. In addition, the U.S. Army Corps of Engineers reports that their non-federal nonentity accounts receivable include long-term receivables due from state and local municipalities for water storage contracts, hydraulic mining, and the leasing of land for flood control purposes. The balance of the amounts reported as nonentity non-federal accounts receivable represent receivables from closed accounts, accrued interest receivable, penalties, fines and administrative fees receivable. The Department does not derive or receive any benefit from these collections but incurs the cost of administering them.

Non-Federal Other Assets

The $126.0 million reported as other nonentity assets primarily represents advances to contractors by the Air Force General Fund. These advances are payments made as a part of an advance-payment pool agreement made with the Massachusetts Institute of Technology and other non-profit institutions. Advance-payment pool agreements are used for the financing of cost-type contracts with nonprofit educational or research institutions for experimental, or research and development work, when several contracts or a series of contracts require financing by advance payments.

Note Reference

For additional line item discussion, see:
Note 3, Fund Balance with Treasury
Note 4, Investments
Note 5, Accounts Receivable
Note 6, Other Assets
Note 7, Cash and Other Monetary Assets
Note 8, Loans Receivable
Note 9, Inventory and Other Related Property

Note 3. Fund Balance with Treasury

As of September 30		2003		2002
(Amounts in millions)				
1. Fund Balances:				
A. Appropriated Funds	$	238,052.2	$	195,621.4
B. Revolving Funds		11,131.1		7,823.4
C. Trust Funds		559.0		809.6
D. Other Fund Types		2,319.7		1,561.8
E. Total Fund Balances	$	252,062.0	$	205,816.2
2. Fund Balances Per Treasury Versus Agency:				
A. Fund Balance per Treasury	$	251,682.0	$	204,945.0
B. Fund Balance per Department of Defense		252,062.0		205,816.2
C. Reconciling Amount	$	(380.0)	$	(871.2)

3. Explanation of Reconciliation Amount:

Reporting Entity (Amounts in millions)		Fund Balance with Treasury FY 2003		Fund Balance per Entity Books FY 2003		Reconciling Amount FY 2003		Reconciling Amount FY 2002
Navy GF	$	78,415	$	78,415	$		$	
Air Force GF		59,766		59,766				
Army GF		55,035		55,035				
ODO GF		48,423		48,737		(314)		(813)
Corps of Engineers		2,530		2,596		(66)		(59)
MERHCF		5		5				
MRF		25		25				
Air Force WCF		2,475		733		1,742		860
Army WCF		1,549		1,549				
ODO WCF		1,631		3,373		(1,742)		(859)
Navy WCF		1,828		1,828				
Total	**$**	**251,682**	**$**	**252,062**	**$**	**(380)**	**$**	**(871)**

Analysis of Reconciling Amounts

Currently, the Department of Treasury reports fund balances at the appropriation basic symbol level. The Defense Finance and Accounting Service Central Sites adjust their funds to agree with the official DoD cash figures shown in each entity's expenditure system:

- Data Element Management/Accounting Reporting System (DELMAR) for Army
- Centralized Expenditure and Reimbursement Processing System (CERPS) for Navy

- Merged Accounting and Fund Reporting System (MAFR) for Air Force

For the Defense Agencies, the Department of the Defense reconciles at the agency-wide level, since Defense Treasury Index 97 funds allotted at limit level preclude individual entity reporting compliance. The Department continues to improve internal methodology to properly account for their funds at the entity level.

As of year-end FY 2003, the Department of Defense shows a reconciling net difference of ($380) million with the Department of the Treasury, which is comprised of:

- ($314) million in undistributed collections and disbursements reported at the departmental level for the ODO General Fund but not yet recorded by the applicable agency;
- ($66) million in collections reported by the Department of the Treasury for the Inland Waterways and Harbor Maintenance Trust Funds. The Corps of Engineers is the lead agency for reporting;
- $1,742 million in cash for the United States Transportation Command is recorded as Fund Balance with Treasury in the Air Force Working Capital Fund. The accounting for these funds is actually performed within the Entity Books of the ODO Working Capital Fund. For final Fiscal Year end reporting, the Fund Balance with Treasury for the ODO Working Capital Fund is adjusted downward to reconcile with the Air Force Working Capital Fund;
- ($1,742) million which is the downward adjustment to the Fund Balance with Treasury for the ODO Working Capital Fund to reflect that the cash reporting to the Department of the Treasury for the United States Transportation Command is done through the Air Force Working Capital Fund.

4. Other Information Related to Fund Balance with Treasury:

<u>Total Fund Balance</u>

Total Fund Balance increased, between year-end FY 2002 and year-end FY 2003, by approximately $46.2 billion (21 percent). The Appropriated Funds increased by approximately $42.4 billion (22 percent). This was primarily as a result of increased budget authority in FY 2003 for the Army, Air Force and Navy General Funds. Between year-end FY 2002 and year-end FY 2003, Army General Funds increased by approximately $15.5 billion (39 percent), Air Force General Funds increased by approximately $11.8 billion (25 percent), and Navy General Funds increased by approximately $10.2 billion (15 percent). The increases are primarily attributable to increased funding for various issues such as Operation Enduring Freedom, Operation Iraqi Freedom, and funding for the Army Vision and Transformation. Some of the increase is from the Defense Emergency Response Fund (DERF) for fighting terrorism throughout the world.

The Army General Fund increase also includes $109.1 million in Vested Iraqi Cash. This cash that represents frozen Iraqi deposits in the United States is vested in accordance with the International Emergency Economic Powers Act, Section 1701 and will be used in support of the Iraqi people. Army has collected $1,660.2 million of Vested Iraqi Cash and has disbursed $1,551.1 million benefiting the Iraqi people as follows:

	Disbursed ($ in millions)
Iraqi Salaries	$1,170.7
Repair/Reconstruction/Humanitarian Assistance	$ 40.6
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	$ 339.8
Total Disbursed	**$1,551.1**

The Revolving Funds increased by approximately $3.3 billion (42 percent). This was primarily as a result of increases to the Army Working Capital Fund and the Other Defense Organizations Working Capital Fund. The Army Working Capital Fund increased as a result of a reversal of interfund credits and from receipt of an allocation of appropriated funds to use for under-utlized plant capacity, purchases of war reserves and spare parts. The Other Defense Organizations Working Capital Fund primarily increased due to heightened levels of reimbursable activity in both the Airlift Mobility Command and the Military Sealift Command for providing transportation for both Operation Enduring Freedom and Operation Iraqi Freedom.

The Trust Funds decreased by approximately $250.6 million (31 percent) primarily because the foreign military trust fund's current year disbursements exceeded current year collections.

The Other Fund Types increased by approximately $757.9 million (49 percent) primarily as a result of the $464.8 million in the Iraqi Relief and Reconstruction Fund and $278.1 million in non-entity seized (Custodial) Iraqi cash. During FY 2003, the non-entity seized (Custodial) Iraqi cash had collections of $808.9 million and disbursements of $530.8 million resulting in the balance of $278.1 million (See Note 23). The Iraqi seized cash will be used in support of the Iraqi people.

Check Issue Discrepancy

The Department of Defense is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices, (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old, or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between the Department of Defense and the Department of the Treasury for processing checks. Check issue discrepancies greater than 180 days at year-end FY 2003 were approximately ($16) million.

Intra-governmental Payment and Collection (IPAC)

The Intra-governmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by the Department of the Treasury but not reported by the organizations. IPAC differences greater than 180 days at year-end FY 2003 were approximately $126 thousand.

Deposit Differences

The Deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury or the Department of Defense. Deposit differences greater than 180 days at year-end FY 2003 were approximately ($4.5) million.

Note Reference:

- See Note Disclosure 1. I. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.
- See Footnote 2 and Footnote 21B for further discussions on Other Fund Balance Types (e.g., Suspense, Budget Clearing, Special and Deposit, etc.)
- See Footnote 18 for information summarizing the status of Funds Balance With Treasury, as discussed by OMB regulation 01-09.

Note 4. Investments

As of September 30	2003					2002
	Cost	Amortization Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in millions)						
1. Intra-governmental Securities:						
A. Marketable	$ 0.0		$ 0.0	$ 0.0	$ 0.0	$ 120.9
B. Non-Marketable, Par Value	0.0		0.0	0.0	0.0	0.0
C. Non-Marketable, Market-Based	214,603.3	Effective Interest	(12,862.3)	201,741.0	217,272.9	176,447.9
D. Subtotal	$ 214,603.3		$ (12,862.3)	$ 201,741.0	$ 217,272.9	$ 176,568.8
E. Accrued Interest	$ 3,635.0			$ 3,635.0	$ 3,635.0	$ 4,235.7
F. Total Intragovernmental Securities	$ 218,238.3		$ (12,862.3)	$ 205,376.0	$ 220,907.9	$ 180,804.5
2. Other Investments:	$ 217.8		0.0	$ 217.8	0.0	$ 0.0

3. Other Information:

The decrease of $120.9 million in marketable securities is due to a reclassification from Intra-governmental to Other Investments.

The increase in Other Investments by $217.8 million represents the $120.9 million mentioned above and new investments in the amount of $96.9 million for the DoD limited partnerships. These limited partnerships have been entered into on behalf of the U.S. Government by both the Department of the Navy and Army in support of the Military Housing Privatization Initiative as signed into Public Law 104-106 110, Stat 186 on February 11, 1996, and do not require Market Value Disclosure.

The Net Investments increased by $25,293.1 million in Non-Marketable, Market-Based securities from year-end FY 2002 to year-end FY 2003. The majority of this increase is attributable to the following reporting entities:

- Investments of $18,445.2 million made by the Medicare-Eligible Retiree Health Care Fund, which was established at the beginning of FY 2003 (October 1, 2002).
- A positive cash flow of $6,675.5 million earned by the Military Retirement Fund.

Note 5. Accounts Receivable

As of September 30	2003			2002
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in millions)				
1. Intra-governmental Receivables:	$ 1,066.6	N/A	$ 1,066.6	$ 1,121.9
2. Non-Federal Receivables (From the Public):	$ 7,918.1	$ (618.2)	$ 7,299.9	$ 6,341.9
3. Total Accounts Receivable:	$ 8,984.7	$ (618.2)	$ 8,366.5	$ 7,463.8

4. Allowance method:

DoD Components used a variety of techniques for estimating Allowance for Uncollectible Accounts Receivable from the public. While the exact details differed among the Components, estimates were usually based on either a percentage of actual prior-year write-offs or a percentage of aged receivables from the public.

5. Other information:

Fluctuations

Total accounts receivable, net increased by $902.7 million or 12 percent between year-end FY 2002 and year-end FY 2003.

Intra-governmental receivables decreased by $55.3 million or 5 percent. The decrease was primarily due to improved accounts receivable reporting procedures implemented in FY 2003.

Non-federal receivables, net increased by $958.0 million or 15 percent. The following factors caused an increase of $1,599.8 million:

- Improved accounts receivable management and reporting procedures and polices
- Reporting of non-current interest receivable for water storage contracts that were not recorded in FY 2002 by the U.S. Army Corps of Engineers ($879.9 million)
- Reclassifying amounts due from foreign governments previously recorded as other assets by the Air Force Working Capital Fund ($116.3 million)
- Recording interest related to a pending contract settlement currently in litigation for the Department of the Navy ($56.8 million)

This increase was partially offset by a $641.8 million decrease primarily due to the reversal of a debt previously in litigation by the Air Force General Fund ($299.1 million) and due to the collection of contractor claims processing errors that occurred in FY 2002 for the Defense Health Program ($202.6 million).

Other Information Related to Intra-Governmental Accounts Receivable

Intra-governmental Accounts Receivable of $1,066.6 million consists of:

	Amount ($ in millions)
Army General Fund	$ 80.2
Navy General Fund	$ 80.6
Air Force General Fund	$ 141.5
US Army Corps of Engineers	$ 414.1
Other Defense Components	$ 350.2
Total	**$1,066.6**

Other Information Related to Non-Federal Accounts Receivable

Non-federal Accounts Receivable, Net of $7,299.9 million consists of:

	Amount ($ in millions)
Army General Fund	$ 514.6
Navy General Fund	$3,382.1
Air Force General Fund	$ 772.5
US Army Corps of Engineers	$1,935.6
Other Defense Components	$ 695.1
Total	**$7,299.9**

Allocation of Undistributed Collections

Undistributed collections occur when a collection is received, but cannot be matched to an appropriate receivable. The Department's policy is to allocate supported undistributed collections between intra-governmental and non-federal categories based on the percentage of intra-governmental and non-federal accounts receivable. Unsupported undistributed collections are recorded as Other Liabilities in Note 15.

Elimination Adjustments

The Department's accounting systems do not capture trading partner data for purchases at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Department was unable to reconcile intra-governmental accounts receivable balances with its trading partners. Through the ongoing Business Management Modernization Program, the Department intends to develop long-term systems improvements by FY 2006 that will capture the data necessary to perform reconciliations.

Other Information Related to Non-Federal Refunds Receivable

Three DoD Components reported non-federal refunds receivable in excess of 10 percent of the total non-federal accounts receivable:

	FY2003 Non-Federal Refunds Receivable (Net) (in millions)	FY2003 Non-Federal Accounts Receivable (Net) (in millions)	Percentage of Net Amount
Army General Fund	$314.5	$514.6	61.1%
Army WCF	5.4	31.2	17.3%
Military Retirement Fund	5.6	14.7	38.1%

Amounts reported for non-federal refunds receivable primarily originated from debts owed by military service members.

Note Reference

See Note Disclosure 1.K. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

For further discussion on "Accounts Receivable" see the Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007 and Volume 4, Chapter 3.

Note 6. Other Assets

As of September 30	2003		2002	
(Amounts in millions)				
1. Intra-governmental Other Assets:				
A. Advances and Prepayments	$	105.0	$	0.1
B. Other Assets		0.0		0.0
C. Total Intra-governmental Other Assets	$	105.0	$	0.1
2. Non-Federal Other Assets:				
A. Outstanding Contract Financing Payments	$	18,868.7	$	15,227.2
B. Other Assets (With the Public)		2,860.9		3,018.6
C. Total Non-Federal Other Assets	$	21,729.6	$	18,245.8
3. Total Other Assets:	$	21,834.6	$	18,245.9

4. Other Information Related to Other Assets:

Fluctuations

Total Other Assets increased $3,558.7 million (approximately 19.7 percent) from year-end FY 2002 to year-end FY 2003. Outstanding Contract Financing Payments was the most significant change as the account increased by $3,641.5 million (23.9 percent). This increase in Outstanding Contract Financing Payments occurred largely as a result of additional progress payments of $2,369.4 million made by the Air Force during FY 2003 primarily for the F-22 program. An additional increase in Outstanding Contract Financing Payments of $1,200.3 million was due to increased funding in Navy Procurement accounts; primarily in their Aircraft Procurement account.

Intragovernmental Other Assets

As of year-end FY 2003, there were approximately $105.0 million in Advances and Prepayments between the DoD and the Department of the Interior. These Advances and Prepayments are supported by the Department of Interior's Intergovernmental Reconciliation Accounting System report. This represents an increase of $104.9 million from year-end FY 2002 when there was $90.1 million that represented the FY 2002 Advances and Prepayments activity between the Department and other federal agencies.

For Intragovernmental Other Assets overall, per DoD's practice, buyer-side "advances to others" balances were adjusted to agree with the seller-side "advances from others" balances in the financial records of other DoD reporting entities. Additionally, the buyer-side "prepayments" balances were adjusted to agree with seller-side "deferred credits" balances in the financial records of other DoD reporting entities.

Non-Federal Other Assets

Outstanding Contract Financing Payments

The Department reports, as an advance and prepayment, all outstanding financing payments for fixed-price contracts that are not based on percentage or stage of completion. Under the contract terms, the Department becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the Department is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the Department for the full amount of the outstanding contract financing payments.

Other Assets (With the Public)

For Other Assets (With the Public) overall, there was a $157.7 million (5.2 percent) decrease.

Other Non-Federal Assets Disclosure

Type of Asset		**FY 2003 (in millions)**
Non-Federal		
Other Contract Financing Payments		
Army GF	$	3,163.7
Navy GF		5,809.6
Air Force GF		9,645.3
Army WCF		250.1
Total Other Contract Financing Payments	**$**	**18,868.7**
Other Assets With The Public		
Army		
Advances to Others	$	376.1
Prepayments		.2
Other Assets		48.8
Navy		
Advances to Others	$	168.2
Prepayments		355.1
Other Assets		716.5
Air Force		
Advances to Others	$	434.0
Other Assets		213.2

DLA		
Advances to Others and Misc. Advances		211.1
Other Agencies		
Advances to Others	$	89.5
Prepayments		246.5
Other Assets from Multiple Reporting Entities		1.7
Total Other Assets With the Public	**$**	**2,860.9**

Navy's $716.5 million Other Assets (With the Public) includes $606.3 million relating to the outstanding debt principal reported for the Transportation Activity Group involving Time Charter arrangements made by Military Sealift Command for the long-term use of the Afloat Prepositioning Force – Navy ships. The outstanding debt principal is reported here to reconcile with the amount reported by the Federal Financing Bank through the trading partner elimination process (see Note 13 for additional disclosures).

Note Reference

See Note Disclosure 1. R. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

Note 7. Cash and Other Monetary Assets

As of September 30	2003	2002
(Amounts in millions)		
1. Cash	$ 1,290.8	$ 573.2
2. Foreign Currency (purchased and non-purchased)	244.1	148.6
3. Other Monetary Assets	0.0	20.9
4. Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,534.9	$ 742.7

5. Other Information Pertaining to Entity Cash & Other Monetary Assets:

Definitions

Cash and Foreign Currency – Cash is the total of cash resources under the control of the Department of Defense, which includes coin, paper currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use includes petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund. Foreign currency consists of the total U.S. dollar equivalent of both purchased and non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts). There is a very limited dollar amount for non-purchased foreign currency. Non-purchased foreign currencies are acquired under the provisions of foreign assistance or foreign agricultural development programs.

Other Monetary Assets - Includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Fluctuation and/or Abnormalities

Cash increased $717.6 million (125.2 percent) primarily resulting from increases in cash on hand to support the military build-up related to both Operation Iraqi Freedom and Operation Enduring Freedom. Foreign currency increased $95.5 million (64.2 percent) primarily as a result of deployment for both Operation Iraqi Freedom and Operation Enduring Freedom. The foreign currency is primarily required to pay foreign vendors, provide cash for agents in support of deployed tactical units, and provide currency for exchange of U.S. dollars for troops stationed overseas. The other significant reason for the increase in foreign currency is attributed to the advance provided by the Korean government to the Army Corps of Engineers to cover construction, labor, and logistics costs of the Corps. Other monetary assets decreased by $20.9 million when an evaluation determined that the amount should be reclassified as an investment.

Cash and Foreign Currency

Cash and foreign currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting and foreign currency accommodation exchange missions. The primary source of the amounts reported for cash and purchased foreign currency is the Standard Form 1219, Statement of Accountability. The non-purchased foreign currency, if there is any, is reported on the monthly DD Form 1363 (Statement of Transactions and Accountability (FT Accounts). Foreign currency is valued using the Department of Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and provide currency for exchange of U.S. dollars for troops. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the reconstruction of Iraq.

Note Reference

See Note Disclosure 1. J. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

Note 8. A.	Direct Loan and/or Loan Guarantee Programs

1. **Direct Loan and/or Loan Guarantee Programs:** The entity operates the following direct loan and/or loan guarantee program(s):
   Military Housing Privatization Initiative
   Armament Retooling & Manufacturing Support Initiative

2. **Other Information:**

Relevant Information for Comprehension

"Federal Credit Reform Act of 1990" (CRA) governs all direct loan obligations and loan guarantee commitments made or amended after FY 1991 resulting in direct loans or loan guarantees. The Department complies with the CRA and reports direct loans and loan guarantees in accordance with OMB Bulletin 01-09 "Form and Content of Agency Financial Statements."

- Direct loans are reported net of allowance for subsidy cost at present value.
- Loan guarantee liabilities are reported at present value.

Military Housing Privatization Initiative

The Military Housing Privatization Initiative (MHPI) includes both a Direct Loan and Loan Guarantee Program. MHPI fosters a mutually beneficial relationship between the Department of Defense (DoD) and the private sector. The DoD obtains private sector capital to leverage government dollars. The DoD provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

The Loan Guarantee Program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Statute 186, Section 2801, includes a series of powerful authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to:

- obtain private capital to leverage government dollars;
- make efficient use of limited resources; and
- use a variety of private sector approaches to build and renovate military housing.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually, or in combination. They include:

- guarantees, both loan and rental
- conveyance/leasing of existing property and facilities
- differential lease payments
- investments, both limited partnerships and stock/bond ownership
- direct loans

Armament Retooling and Manufacturing Support Initiative

The Armament Retooling and Manufacturing Support Initiative (ARMS), Title 10 USC 4551-4555, is a Loan Guarantee Program designed to encourage commercial use of the Army's Inactive Ammunition Plants through many incentives for businesses willing to locate to a government ammunition production facility. These facilities' production capacity is greater than current military requirements. This capacity could be needed in the future. The revenues from the property rental are used to pay for the operation, maintenance and environmental clean up at the facilities. The resulting savings in overhead costs lower the production cost of the goods manufactured and fund environmental clean up at no cost to the government.

The US Department of Agriculture Rural Business-Cooperative Service (RBS) and the United States Army established a Memorandum of Understanding (MOU) to furnish services to the Army in connection with the ARMS Initiative Loan Guarantee

Program (AILG) pursuant to Section 193 of the Armament Retooling and Manufacturing Support Act of 1992 (P.L. 102-484), as amended (10 U.S.C. 2501 note). The Army was authorized by the National Defense Authorization Act for Fiscal Year 1995 (P.L. 103-337) to enter into this MOU with RBS pursuant to 31 U.S.C. 1535. RBS has the needed programmatic and administrative services necessary and convenient and to provide other services required administering the AILG Program. Therefore, to ensure service to the public and for protection of the federal interests and rights, it was necessary for Army to obtain services from RBS.

Prior to FY 2002, the RBS was required to include this program in the US Department of Agriculture (USDA) financial statements. In FY 2002, the USDA was not required to include this program and the Department of the Army reports the balance. This complies with the Office of Management and Budget (OMB) Bulletin No. 01-09, Note 36 and OMB Circular A-11, Section 20.4.

Note 8.B.	Direct Loans Obligated After FY 1991

As of September 30	2003	2002
(Amounts in millions)		
Loan Programs		
1. Military Housing Privatization Initiative:		
A. Loans Receivable Gross	$ 129.1	$ 92.6
B. Interest Receivable	0.0	0.0
C. Foreclosed Property	0.0	0.0
D. Allowance for Subsidy Cost (Present Value)	(65.1)	(48.4)
E. Value of Assets Related to Direct Loans	$ 64.0	$ 44.2
2. Armament Retooling & Manufacturing Support Initiative:		
A. Loans Receivable Gross	$ 0.0	$ 0.0
B. Interest Receivable	0.0	0.0
C. Foreclosed Property	0.0	0.0
D. Allowance for Subsidy Cost (Present Value)	0.0	0.0
E. Value of Assets Related to Direct Loans	$ 0.0	$ 0.0
3. Total Loans Receivable:	$ 64.0	$ 44.2

4. Other Information:

Subsidy costs are recognized when direct loans are disbursed to borrowers and are reestimated each year. Allowance for subsidy cost is the difference between the outstanding principal of the loans and the present value of their net cash inflows. New loans in the amount of $36.7 million were disbursed relating to housing at Elmendorf, Alaska and Camp Pendleton, California. There were loan principal repayments of

$.2 million during FY 2003 for the Lackland Air Force Base, TX project, resulting in a net increase of $36.5 million. The difference between the FY 2002 Beginning Balance of Allowance for Subsidy Cost (Present Value) in this note and note 8.F. is due to a correction of $6.6 million recognized in the current period. This amount is not material to the DoD, so the prior year amounts are not being restated.

Note 8.C. Total Amount of Direct Loans Disbursed

As of September 30		2003		2002
(Amounts in millions)				
Direct Loan Programs				
1. Military Housing Privatization Initiative:	$	36.7	$	92.6
2. Armament Retooling & Manufacturing Support Initiative		0.0		0.0
3. Total	$	36.7	$	92.6

4. Other Information:

Direct loans disbursed declined by 60 percent or $55.9 million from FY 2002 to FY 2003. This is due to the reduced number of direct loans issued. Total direct loans disbursed in FY 2003 for the MHPI program are (in millions):

Camp Pendleton Marine Corps Base, California	6.0
Elmendorf Air Force Base, Alaska	30.7
Total Direct Loans Disbursed	36.7

Gross direct loans disbursed for the MHPI program from inception consists of the following (millions):

Dyess Air Force Base, Texas	28.9
Elmendorf Air Force Base, Alaska	48.0
Lackland Air Force Base, Texas	10.6
Warner Robins Air Force Base, Georgia	22.3
Camp Pendleton Marine Corps Base, California	17.0
Kingsville Air Force Base, Texas	2.5
Total	129.3

Direct loans disbursed in FY 2002 consisted of the following (in millions):

Dyess Air Force Base, Texas	28.9
Elmendorf Air Force Base, Alaska	17.3
Lackland Air Force Base, Texas	10.6
Warner Robins Air Force Base, Georgia	22.3
Camp Pendleton Marine Corps Base, California	11.0
Kingsville Air Force Base, Texas	2.5
Total	92.6

Note 8.D. Subsidy Expense for Post-1991 Direct Loans

As of September 30 (Amounts in millions)					
2003	Interest Differential	Defaults	Fees	Other	Total
1.Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 19.2	$ 4.1	$ 0.0	$ 0.0	$ 23.3
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 19.2	$ 4.1	$ 0.0	$ 0.0	$ 23.3
2002	Interest Differential	Defaults	Fees	Other	Total
2.Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	$ 34.6	$ 7.2	$ 0.0	$ 0.0	$ 41.8
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 34.6	$ 7.2	$ 0.0	$ 0.0	$ 41.8
2003	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2002	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0

	2003	2002
5. Total Direct Loan Subsidy Expense:		
Military Housing Privatization Initiative	$ 23.3	$ 41.8
Armament Retooling & Manufacturing Support Initiative	0.0	0.0
Total	$ 23.3	$ 41.8

6. Other Information:

The interest rate and default cost values represent the amounts for the three phased loans disbursed in FY 2003. These rates are established for each individual loan, ranging from 66 percent for the Camp Pendleton Marine Corps Base, CA project to 43 percent for the Elmendorf Air Force Base, AK project.

The decline in the reporting of Interest Rate Differential Costs and Default Costs from year-end FY 2002 is proportional to six loans disbursed for FY 2002 and two loans disbursed in FY 2003. The reduction in loans disbursed results in an $18.5 million decrease for the direct loan subsidy expense. The subsidy rate differs for each project, from 66 percent for Camp Pendleton Marine Corps Base, CA to 43 percent for Elmendorf Air Force Base, AK. This has a direct impact on the variance from FY 2002 to FY 2003.

The $23.3 million in total Subsidy Expense includes the recognition of Subsidy from loans disbursed prior to FY 2003. This represents a correction of $6.6 million recognized in the current period and not a reestimate. This amount is not material to the DoD, so the prior-year amounts are not being restated.

As of September 30, 2003, there were no reestimates for the Direct Loans Program.

Note 8.E. Subsidy Rate for Direct Loans

	Interest Differential	Defaults	Fees	Other	Total
Direct Loans:					
1. Military Housing Privatization Initiative:	30.62%	9.33%	0.00%	0.00%	39.95%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

3. Other Information:

Subsidy rates pertain to the loan agreements contracted during the current fiscal year. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans disbursed in the current year could result from disbursement of loans from both current and prior-year loan agreements.

Subsidy rates for FY 2004 are included in the FY 2004 Presidential Budget Federal Credit Supplement and are published at the following website:

http://www.whitehouse.gov/omb/budget/fy2004/pdf/cr_supp.pdf.

Note 8.F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post-1991 Direct Loans

Beginning Balance, Changes and Ending Balance		2003
(Amounts in millions)		
1. Beginning balance of the subsidy cost allowance	$	41.8
2. Add: subsidy expense for direct loans disbursed during the reporting years by component:		
A. Interest rate differential costs	$	19.2
B. Default costs (net of recoveries)		4.1
C. Fees and other collections		0.0
D. Other subsidy costs		0.0
E. Total of the above subsidy expense components	$	23.3
3. Adjustments:		
A. Loan modifications	$	0.0
B. Fees received		0.0
C. Foreclosed property acquired		0.0
D. Loans written off		0.0
E. Subsidy allowance amortization		0.0
F. Other		0.0
G. Total of the above adjustment components	$	0.0
4. Ending balance of the subsidy cost allowance before reestimates	$	65.1
5. Add or subtract subsidy reestimates by component:		
A. Interest rate reestimate	$	0.0
B. Technical/default reestimate		0.0
C. Total of the above reestimate components	$	0.0
6. Ending balance of the subsidy cost allowance	$	65.1

Note 8.G. Defaulted Guaranteed Loans from Post-1991 Guarantees

As of September 30	2003	2002
(Amounts in millions)		
Loan Guarantee Program(s)		
1. Military Housing Privatization Initiative:		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0.0	$ 0.0
B. Interest Receivable	0.0	0.0
C. Foreclosed Property	0.0	0.0
D. Allowance for Subsidy Cost (Present Value)	0.0	0.0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.0	$ 0.0
2. Armament Retooling & Manufacturing Support Initiative		
A. Defaulted Guaranteed Loans Receivable, Gross	$ 0.0	$ 0.0
B. Interest Receivable	0.0	0.0
C. Foreclosed Property	0.0	0.0
D. Allowance for Subsidy Cost (Present Value)	0.0	0.0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.0	$ 0.0
3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable	$ 0.0	$ 0.0

4. Other Information:

As of the September 30, 2003, the Department had no defaulted guaranteed loans.

Note 8.H. Guaranteed Loans Outstanding

As of September 30 (Amounts in millions) Loan Guarantee Program Title	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
2003		
1. Military Housing Privatization Initiative	$ 389.0	$ 389.0
2. Armament Retooling & Manufacturing Support Initiative	26.8	24.0
3. Total	$ 415.8	$ 413.0
2002		
1. Military Housing Privatization Initiative	$ 75.0	$ 75.0
2. Armament Retooling & Manufacturing Support Initiative	8.6	7.7
3. Total	$ 83.6	$ 82.7

4. Other Information:

MHPI

During FY 2003 new Guaranteed Loans were created for Kirtland Air Force Base, NM, Wright Patterson Air Force Base, OH, Warner Robins Air Force Base, GA, Elmendorf Air Force Base, AK and Lackland Air Force Base, TX. The Guaranteed Loans Outstanding for the MHPI program as of the end of FY 2003 consists of the following (in millions):

Warner-Robins Air Force Base, GA	25.6
Fort Carson Army Installation, CO	147.0
Kirtland Air Force Base, NM	74.0
Wright Patterson Air Force Base, OH	65.0
Elmendorf Air Force Base, AK	48.0
Lackland Air Force Base, TX	29.4
Total	389.0

ARMS

Guaranteed loans outstanding increased by $18.2 million or 213 percent as a result of issuing two additional loans in FY 2003.

Note 8.I. Liability for Post-1991 Loan Guarantees, Present Value

As of September 30 (Amounts in millions)	2003	2002
Loan Guarantee Program Title		
1. Military Housing Privatization Initiative	$ 24.6	$ 13.4
2. Armament Retooling & Manufacturing Support Initiative	1.3	0.7
3. Total	$ 25.9	$ 14.1

4. Other Information:

MHPI

The net increase of $11.2 million between FY 2002 and FY 2003 is the result of new guaranteed loans. New guaranteed loans for FY 2003 are listed in note 8.H. The FY 2003 liability also includes a correction of a negative $2.1 million recognized in the current period and not a reestimate. This amount is not material to the DoD, so the prior-year amounts are not being restated.

ARMS

Total Loan Guarantee Liabilities increased $.6 million as a result of two additional loans issued in FY 2003.

Note 8.J.	Subsidy Expense for Post-1991 Loan Guarantees

As of September 30 (Amounts in millions)					
2003	Interest Differential	Defaults	Fees	Other	Total
1. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0.0	$ 11.3	$ 0.0	$ 0.0	$ 11.3
Armament Retooling & Manufacturing Support Initiative	0.0	0.1	(0.0)	0.0	0.1
Total	$ 0.0	$ 11.4	$ 0.0	$ 0.0	$ 11.4
2002	Interest Differential	Defaults	Fees	Other	Total
2. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	$ 0.0	$ 10.1	$ 0.0	$ 0.0	$ 10.1
Armament Retooling & Manufacturing Support Initiative	0.0	(0.0)	0.0	0.0	0.0
Total	$ 0.0	$ 10.1	$ 0.0	$ 0.0	$ 10.1
2003	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2002	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0

	2003	2002
5. Total Loan Guarantee Subsidy Expense:		
Military Housing Privatization Initiative	$ 11.3	$ 10.1
Armament Retooling & Manufacturing Support Initiative	0.1	0.0
Total	$ 11.4	$ 10.1

6. Other Information:

MHPI

The MHPI has $11.3 million in Default Subsidy, which includes the recognition of subsidy from loans disbursed prior to FY 2003. This amount also includes a correction of a negative $2.1 million recognized in the current period and not a reestimate. This amount is not material to the DoD, so the prior-year amounts are not being restated.

ARMS

ARMS loan guarantee subsidy expense increased by $0.1 million as a result of increased loan activity.

Note 8.K. Subsidy Rate for Loan Guarantees

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Loan Guarantees:					
1. Military Housing Privatization Initiative:	0.00%	5.40%	0.00%	0.00%	5.40%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	4.94%	-1.60%	0.00%	3.34%

3. Other Information:

MHPI

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year that could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

These rates are obtained from the following web site: http://www.whitehouse.gov/omb/budget/fy2004/pdf/cr_supp.pdf.

The FY 2004 Federal Credit Supplement provides summary information about Federal Direct Loan and Loan Guarantee Programs subject to the Federal Credit Reform Act (FCRA) of 1990, as amended by the Balanced Budget Act of 1997. The data is based on legislation enacted for FY 2002 and the proposals contained in the President's 2003 Budget.

Note 8.L.	Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees	
Beginning Balance, Changes and Ending Balance		**2003**

(Amounts in millions)

1. Beginning balance of the loan guarantee liability	$	14.1
2. Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
A. Interest supplement costs	$	0.0
B. Default costs (net of recoveries)		11.4
C. Fees and other collections		(0.0)
D. Other subsidy costs		0.0
E. Total of the above subsidy expense components	$	11.4
3. Adjustments:		
A. Loan guarantee modifications	$	0.0
B. Fees received		0.4
C. Interest supplements paid		0.0
D. Foreclosed property and loans acquired		0.0
E. Claim payments to lenders		0.0
F. Interest accumulation on the liability balance		0.0
G. Other		0.0
H. Total of the above adjustments	$	0.4
4. Ending balance of the loan guarantee liability before reestimates	$	25.9
5. Add or subtract subsidy reestimates by component:		
A. Interest rate reestimate		0.0
B. Technical/default reestimate		0.0
C. Total of the above reestimate components	$	0.0
6. Ending balance of the loan guarantee liability	$	25.9

7. Other Information:

Note 8.M.	Administrative Expense

As of September 30	2003	2002
(Amounts in millions)		
1. Direct Loans:		
Military Housing Privatization Initiative	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0
Total	$ 0.0	$ 0.0
2. Loan Guarantees:		
Military Housing Privatization Initiative	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0
Total	$ 0.0	$ 0.0

3. Other Information:

Administrative Expense is limited to separately identified expenses administered to direct and guaranteed loans. DoD does not maintain a separate program to capture the expenses related to direct and guaranteed loans only for the MHPI.

Administrative Expense for the ARMS is a fee paid to the U.S. Department of Agriculture Rural Business-Cooperative Service (RBS) for administering the loan guarantees under the ARMS, which is a joint program (see Note 8.A.). Administrative Expense for the ARMS is immaterial to the DoD financial statements.

Note 9. Inventory and Related Property

As of September 30	2003	2002
(Amounts in millions)		
1. Inventory, Net (Note 9.A.)	$ 52,995.0	$ 53,375.1
2. Operating Materials & Supplies, Net (Note 9.B.)	139,351.2	90,715.4
3. Stockpile Materials, Net (Note 9.C.)	1,827.9	2,108.1
4. Total	$ 194,174.1	$ 146,198.6

Note 9.A. Inventory, Net

As of September 30	2003 Inventory, Gross Value	2003 Revaluation Allowance	2003 Inventory, Net	2002 Inventory, Net	Valuation Method
(Amounts in millions)					
1. Inventory Categories:					
A. Available and Purchased for Resale	$ 70,162.0	$ (36,465.4)	33,696.6	$ 34,984.5	
B. Held for Repair	27,763.6	(10,408.3)	17,355.3	16,066.1	
C. Excess, Obsolete, and Unserviceable	3,823.3	(3,823.3)	0.0	0.0	
D. Raw Materials	9.8	0.0	9.8	0.0	
E. Work in Process	1,933.3	0.0	1,933.3	2,324.5	
F. Total	$ 103,692.0	$ (50,697.0)	52,995.0	$ 53,375.1	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
O = Other
MAC = Moving Average Cost

2. Restrictions of Inventory Use, Sale, or Disposition:

Generally, there are no restrictions on the use, sale, or disposition of inventory except in the following situations:

1) Distributions without reimbursement are made when authorized by Department of Defense directives;
2) War reserve material includes fuels and subsistence items that are considered restricted; and
3) Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

3. Other Information:

Category	Valuation Method
Available and Purchased for Resale	LAC; MAC; AC
Held for Repair	LAC; O; MAC
Excess, Obsolete, and Unserviceable	LAC; AC; NRV; O
Work in Process	MAC; LAC; SP

Definitions

Inventory Available and Purchased for Resale includes consumable spare and repair parts and repairable items owned and managed by the Department. This inventory includes material held due to a managerial determination that these items should be retained to support military or national contingencies.

Inventory Held for Repair is damaged inventory that requires repair to make suitable for sale. It is more economical to repair than to procure these inventory items. In addition, because the Department often relies on weapon systems and machinery no longer in production, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. Potentially reusable material, presented in previous years as "Excess, Obsolete and Unserviceable" is included in "Held for Use" or "Held for Repair" categories according to its condition. As explained below, this category is no longer used.

Work in Process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending the submission of bills to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

Changes from Prior Year's Accounting Methods – Inventory Valuation

Effective for fiscal year 2002 and prior, OUSD(C) memorandum dated August 12, 2002, Subj: Accounting for Excess, Obsolete, and Unserviceable Inventory and Operating Materials and Supplies, implemented a Department-wide change in policy for classification of and accounting for excess, obsolete, and unserviceable inventory. This policy change revised the Department's previous process which used supply stratification reports to determine potential excess items. These items were written down annually to Net Realizable Value - with the annual net changes recorded as expenses. The change in policy limited the write-down of inventory to specific condition codes for condemned items with a net realizable value of zero. This change was applied to FY 2002 and prior and, accordingly, required a reversal of previous years' expenses - and a reestablishment of significant amounts of inventory as Inventory "Available and Purchased for Resale." This policy is reflected in the following schedule of Inventory, Net, by reporting Service and Agency:

	Inventory, Net Categories				
Agencies	Available and Purchased for Resale	Held for Repair	Work In Process	Sept 30, 2003 Total (in Millions)	Sept 30,2002 Total (in millions)
Army	11,269.0	895.1	261.0	12,425.0	$11,319.3
Navy	3,319.3	13,242.9	957.2	17,519.4	17,012.6
Air Force	6,598.8	3,206.7	693.6	10,499.2	12,846.8
Defense Logistics Agency	12,149.0	10.5		12,159.5	11,525.1
Other Defense Agencies	370.4		21.5	391.9	671.3
Total	**33,706.4**	**17,355.2**	**1,933.3**	**52,995.0**	$53,375.1
Total – September 30, 2002	$34,984.0	$16,066.6	$2,324.5	$53,375.1	

Fluctuations and/or Abnormalities

The high value for Navy "Held for Repair" was attributed to increased support for Operation Iraqi Freedom which included significant movement of reparable items from activities to repair facilities such as shipyards and aircraft maintenance facilities.

The overall decrease in Inventory, Net is $380.1 million. This amount is .72 percent of the total value of Inventory. This reflects the requirements of Operation Iraqi Freedom.

U.S. Army
Raw Materials increased $9.8 million or 100%. The Army Working Capital Fund is reporting this category of inventory for the first time in FY 2003. This is the result of implementation of the Army's Logistics Management Program at some of its activities. These reclassified items were previously reported as Available and Purchased for Resale.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale by Defense Working Capital Funds. Inventory is tangible personal property that is:

1) Held for sale, or held for repair for eventual sale;
2) In the process of production for sale; or
3) To be consumed in the production of goods for sale or in the provision of services for a fee.

Spare and repair parts, clothing and textiles, fuels, ammunition, missiles, aircraft engines, and other items held for consumption by General Funds are categorized as Operating Materials & Supplies. (See Note 9.B.)

Inventory "held for repair" is damaged material that requires repair to make it usable. "Excess inventory" is condemned material that must be retained for management purposes. "Work in process" includes munitions in production and depot maintenance work with its associated labor, applied overhead, and supplies used in the delivery of maintenance services. The United States Standard General Ledger does not include a separate work in process general ledger account unrelated to sales.

Changes from Prior Year's Accounting Methods – Revaluation Allowance

"In accordance with generally accepted accounting principles and Statement of Federal Financial Accounting Standards Number 3, the Department's inventory is required to be valued at historical cost or at an approximation of historical cost utilizing an accepted method as stated in SFFAS No. 3. Because the Department's logistics and accounting systems were not designed to maintain historical values as required, the Department has been utilizing an accepted alternative which adjusts latest acquisition costs (LAC) and standard prices to an approximation of historical cost. Latest acquisition cost and standard prices apply the latest procurement prices to all like items in inventory. LAC and standard price methods, however, typically create inflated inventory values due to unrealized gains generated by procurement cost adjustments to all items. Because such gains should not be realized until items are sold, the Department requires an adjustment for price gains and operating surcharges for regulatory reporting. These gains have been, and continue to be, captured in an Allowance account which, when netted against gross inventory values, produce a net inventory which approximates historical cost.

In a July 6, 2001 memorandum, the Office of the Under Secretary of Defense (Comptroller) prescribed moving average cost (MAC) as the inventory valuation method to be used by the Department. However, the change in policy recognized the deficiencies in current systems as noted above and authorized the continued use of the Allowance method for other functional areas (e.g., logistics, procurement, budget) - and for legacy financial systems - but only until such time as those systems are replaced. Transition from the Allowance method to MAC began in fiscal year 2002 and continues in 2003 and beyond.

Note Reference

See Note Disclosure 1. M. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on accounting treatment of "Inventory, Net" see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101103.

Note 9.B. Operating Materials and Supplies, Net

As of September 30	2003			2002	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
(Amounts in millions)					
1. OM&S Categories:					
A. Held for Use	$ 122,732.3	$ 0.0	$ 122,732.3	$ 79,979.5	
B. Held for Repair	18,169.3	(1,550.4)	16,618.9	10,255.6	
C. Excess, Obsolete, and Unserviceable	3,708.9	(3,708.9)	0.0	480.3	
D. Total	$ 144,610.5	$ (5,259.3)	$ 139,351.2	$ 90,715.4	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses
SP= Standard Price
AC= Actual Cost
NRV = Net Realizable Value
O = Other
MAC = Moving Average Cost

2. Restrictions on OM&S:

Generally, there are no restrictions on the use, sale, or disposition of inventory except in the following situations:

1. Distributions without reimbursement are made when authorized by DoD directives;
2. War reserve material includes fuels and subsistence items that are considered restricted; and
3. Inventory, with the exception of safety stocks, may be sold to foreign, state and local governments, private parties, and contractors in accordance with current policies and guidance or at the direction of the President.

3. Other Information:

OM&S Categories	**Valuation Method**
Held for Use	LAC; MAC; AC; SP; O
Held for Repair	LAC; SP; MAC; O
Excess, Obsolete, and Unserviceable	AC; NRV; O; SP

General Composition of Operating Materials and Supplies

Operating Materials and Supplies includes spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines.

Decision Criteria for Identifying the Category to Which Operating Materials and Supplies are Assigned

Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded "condemned." The net value of these items is zero, and is shown as "Excess, Obsolete, and Unserviceable." The category "Held for Use" includes all issuable and economically reparable material. Before FY 2002, the Department showed "Potentially re-distributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

Fluctuations and/or Abnormalities for OM&S, Net

	Operating Materials & Supplies, Net				
Agencies	Held for Use	Held for Repair	Excess, Obsolete, and Unserviceable	Sept 30,2003 Total (in millions)	Sept 30,2002 Total (in millions)
Army	32,383.4	-	-	32,383.4	26,964.9
Navy	50,685.2	3,663.2	-	54,348.4	33,003.6
Air Force	39,515.5	12,955.7	-	52,471.2	28,817.5
Defense Logistics Agency	8.6	-	-	8.6	10.5
Other Defense Agencies	139.6	-	-	139.6	1,918.9
Total	**122,732.3**	**16,618.9**		**139,351.2**	90,715.4
Total – September 30, 2002	79,979.5	10,225.6	480.3	90,715.4	

Fluctuations and/or Abnormalities

OM&S increased by $48,635.8 million. The majority of this increase is attributable to the implementing the requirements under Statement of Federal Financial Accounting Standards (SFFAS) #23. "Eliminating the Category National Defense Property, Plant and Equipment (NDPP&E)." As a result the Department now reports under OM&S assets formerly reported as NDPP&E. This information was previously reported as Required Supplementary Stewardship Information (RSSI).

Government Furnished Material (GFM) and Contractor Acquired Material (CAM). Generally, the value of the Department's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.

Note Reference

See Note Disclosure 1. M. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussions on accounting treatment of "Stockpile Materials, Net" see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101106.

Note 9.C. Stockpile Materials, Net

As of September 30	2003 Stockpile Materials Amount	2003 Allowance for Gains (Losses)	2003 Stockpile Materials, Net	2002 Stockpile Materials, Net	Valuation Method
(Amounts in millions)					
1. Stockpile Materials Categories:					
A. Held for Sale	$ 1,691.7	$ 0.0	$ 1,691.7	$ 2,039.7	
B. Held in Reserve for Future Sale	136.2	0.0	136.2	68.4	
C. Total	$ 1,827.9	$ 0.0	$ 1,827.9	$ 2,108.1	

Legend for Valuation Methods:

LAC= Latest Acquisition Cost
SP= Standard Price
AC= Actual Cost
NRV = Net Realizable Value
O = Other

2. Restrictions on Stockpile Materials:

There are legal restrictions on the use of stockpile materials. Strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence on foreign sources of supply in times of a national emergency. Due to environmental considerations, there is a moratorium on the sale of mercury and thorium nitrate.

3. Other Information:

Category	Valuation Method
Held for Sale	AC; LCM (Lower of Cost or Market)
Held for Reserve	AC; LCM

General Composition of Stockpile Materials

Stockpile materials are strategic and critical materials, held due to statutory requirements, for use in national defense, conservation or national emergencies. Strategic and critical materials are stockpiled in the interest of national defense to preclude a dangerous and costly dependence on foreign sources of supply in times of a national emergency. The quantities to be stockpiled are required to be sufficient to sustain the U. S. for a period of not less than three years during a national emergency (including a sustained conventional global war of indefinite duration). Required stockpile levels may only be changed by law through a Presidential proposal in the Annual Material Plan submitted to Congress.

Decision Criteria for Categorizing Stockpile Materials as "Held For Sale"

Materials for which Congress has not authorized sale are classified as Materials Held in Reserve. The balance of the stockpile is available for sale on the open market and is classified as Held for Sale. Disposals cannot be made from the stockpile except under the following situations: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; and (4) as authorized by law.

Changes in the Criteria for Categorizing Stockpile Materials as "Held For Sale"

All materials held by the Defense National Stockpile (DNS) are classified as Materials Held in Reserve until Congressional action declares the materials are no longer required to be stockpiled and are available for sale on the open market. When DNS receives authorization to offer materials declared no longer needed and available for sale, DNS removes the materials from Material Held in Reserve and reclassifies them as Material Held for Sale.

Other Information Related to Stockpile Material, Net

The financial statements report the recorded historical cost in accordance with the lower of cost or market (LCM) principal.

Note Reference

See Note Disclosure 1. M. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on accounting treatment of “Stockpile Materials,, Net” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101109.

Note 10. General PP&E, Net

As of September 30	2003					2002
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in millions)						
1. Major Asset Classes:						
A. Land	N/A	N/A	$ 9,663.4	N/A	$ 9,663.4	$ 9,560.0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	159,527.4	$ (83,139.4)	76,388.0	73,556.1
C. Leasehold Improvements	S/L	lease term	196.6	(100.4)	96.2	101.2
D. Software	S/L	2-5 Or 10	5,022.2	(2,629.5)	2,392.7	1,391.7
E. Equipment	S/L	5 Or 10	1,163,111.2	(825,057.0)	338,054.2	13,454.6
F. Assets Under Capital Lease [1]	S/L	lease term	577.2	(343.6)	233.6	264.4
G. Construction-in-Progress	N/A	N/A	19,388.3	N/A	19,388.3	24,143.2
H. Other			92.5	0.0	92.5	98.5
I. Total General PP&E			$ 1,357,578.8	$ (911,269.9)	$ 446,308.9	$ 122,569.7

[1] Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

2. Other Information:

Fluctuations and/or Abnormalities

Total General PP&E increased by $323.7 billion (264.2 percent) from year-end FY 2002 to year-end FY 2003. The majority of this fluctuation was due to re-establishing the value of military equipment on the Balance Sheet (see disclosure below).

Equipment increased by $324.6 billion. This increase was primarily due to inclusion of $325.1 billion in military equipment. The estimated total acquisition cost of military equipment was $1,123.5 billion with accumulated depreciation of $798.4 billion resulting in a net book value of $325.1 billion. Military equipment was previously reported as National Defense PP&E in the Required Supplementary Stewardship Information.

The software increased by a net of $1,001.0 million (71.9 percent) due to the reclassification from the Construction-in-Progress (CIP) category to the software category. The majority of the change is attributable to the DFAS Working Capital Fund's reclassification of $433.9 million and the Air Force Working Capital Fund's reclassification of $510.0 million.

The CIP account decreased by $4,754.9 million (19.7 percent). The principal reasons for the decrease were as follow:

- The reclassification of software totaling $1,001.0 million (as described above).
- Compliance with a DoDIG audit recommendation to expense approximately $1,000.0 million for cost-sharing.
- The Corps of Engineer corrective action of $2,584.8 million to transfer out completed assets and to reclassify non project cost to expense.

Other Information Related to General PP&E, Net

Military Equipment

The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The Department has determined that it is not practical at this time to accumulate from internal records the information necessary to value military equipment in accordance with generally accepted accounting principles, because the Department is currently working to revise its accounting processes and systems to support the informational needs of management and compliance with generally accepted accounting principles. In the interim, the Department will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA), Department of Commerce.

The data provided by BEA consist of investment and net book value data for 84 groups of equipment such as aircraft, ships and combat vehicles. BEA uses Department budget data for equipment acquisitions and actual quantities of equipment items delivered to calculate the Department's annual investment in equipment, after recognizing any equipment transfers or war losses. The Department adjusted BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property.

Note 10.A. Assets Under Capital Lease

As of September 30	2003	2002
(Amounts in millions)		
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	$ 574.6	$ 576.3
B. Equipment	2.6	11.5
C. Other	0.0	0.0
D. Accumulated Amortization	(343.6)	(323.4)
E. Total Capital Leases	$ 233.6	$ 264.4

2. Description of Lease Arrangements:

Assets Under Capital Lease consist primarily of leases for the Section 801 Family Housing Program.

3. Other Information:

Fluctuations and/or Abnormalities

Assets Under Capital Lease decreased $30.8 million or 11.6 percent primarily due to straight-line depreciation of lease assets and expiration of leases.

Other Disclosures

Imputed interest was necessary to reduce net minimum lease payments to the present value calculated at the incremental borrowing rate at the inception of the leases.

Note Reference

Note 15B discusses the related capital lease liabilities. It discloses the current and noncurrent portion.

See Note 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and Department of Defense policies governing leases.

Note 11.	Liabilities Not Covered by Budgetary Resources

As of September 30,	2003	2002
(Amounts in millions)		
1. Intragovernmental Liabilities:		
A. Accounts Payable	$ 0.0	$ 7.0
B. Debt	18.2	65.6
C. Environmental Liabilities	0.0	0.0
D. Other	4,814.5	4,268.0
E. Total Intragovernmental Liabilities	**$ 4,832.7**	**$ 4,340.6**
2. Non-Federal Liabilities		
A. Accounts Payable	$ 0.0	$ 0.0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	1,233,557.2	1,157,773.5
C. Environmental Liabilities	58,047.6	55,420.3
D. Loan Guarantee Liability	0.0	0.0
E. Other Liabilities	12,552.1	11,439.7
F. **Total Non-Federal Liabilities**	**$ 1,304,156.9**	**$ 1,224,633.5**
3. Total Liabilities Not Covered by Budgetary Resources	**$ 1,308,989.6**	**$ 1,228,974.1**
4. Total Liabilities Covered by Budgetary Resources	**$ 249,604.1**	**$ 222,367.7**
5. Total Liabilities	**$ 1,558,593.7**	**$ 1,451,341.8**

Definitions

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include (1) new budget authority; (2) spending authority from offsetting collections (credited to an appropriation or fund account); (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations; (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year; and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the Office of Management and Budget (OMB) without further action by the Congress or without a contingency first having to be met.

Fluctuations

Fluctuations in liabilities are disclosed in the individual footnotes. See Note Reference below for the applicable note schedule.

Other Information Related to Liabilities Not Covered By Budgetary Resources

Not Covered by Budgetary Resources (Fiscal Year 2002)

In FY 2002 certain liabilities that were covered by budgetary resources were improperly classified as not covered by budgetary resources. For FY 2003 reporting, mapping corrections of this misclassification resulted in a change to the amount of not covered by budgetary resources reported in the prior year column.

Intra-governmental Other

Intra-governmental Other (not covered by budgetary resources) consist primarily of an unliquidated progress payments and associated accrued interest receivable of $2,409.3 million for contractor debt, workmen compensation of $1,278.2 million, judgement fund liabilities of $591.4 million, and other custodial liabilities of $351.8 million. The contractor debt is reported as an unfunded liability to Treasury. Collections on this debt will be due and payable to Treasury as the appropriations are in a cancelled status. See Note 5 for further disclosure.

Non-Federal Other Liabilities

Non-Federal Other Liabilities (not covered by budgetary resources) consist primarily of unfunded annual leave of $7,572.7 million, non-environmental disposal liabilities of $2,168.7 million, and contingent liabilities of $1,528.6 million.

Note Reference

For Additional Line Item discussion, see:
Note 2, Nonentity and Entity Assets
Note 8, Direct Loans and/or Loan Guarantee Programs
Note 12, Accounts Payable
Note 13, Debts
Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities
Note 15, Other Liabilities
Note 17, Military Retirement Benefits and Other Employment-Related Actuarial Liabilities
Note 23, Disclosures Related to the Statement of Custodial Activity

Note 12. Accounts Payable

As of September 30	2003			2002
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in millions)				
1. Intra-governmental Payables:	$ 101.3	N/A	$ 101.3	$ 85.8
2. Non-Federal Payables (to the Public):	$ 27,862.8	$ 1.0	$ 27,863.8	$ 24,182.4
3. Total	$ 27,964.1	$ 1.0	$ 27,965.1	$ 24,268.2

4. Other Information:

The Non-Federal Payables balance for fiscal year 2002 of $24,182.4 million is $22.6 million more than the agency-wide balance of $24,159.8 million published in the FY 2002 Performance and Accountability Report. The reason for the difference is as follows:

The Defense Finance and Accounting Service made a $22.6 million prior period adjustment to record a fiscal year 2002 audit adjustment that had been made to the DFAS statements after publishing the DoD-wide statements. A prior period adjustment was recorded in fiscal year 2003 to include this change in the DoD-wide statements.

Intra-governmental accounts payable consists of amounts owed to other Federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to Intra-governmental payables. Non-Federal payables (to the public) are payments to non-federal government entities.

Fluctuations

Total accounts payable, net increased by $3,696.9 million or 15.2 percent between year-end FY 2002 and year-end FY 2003.

Intra-governmental Accounts Payable

Intra-governmental accounts payable increased by $15.5 million or 18 percent between year-end FY 2002 and year-end FY 2003. The major contributors to the increase were:

	Amount ($ in millions)
Air Force General Fund	$ 13.8
US Army Corps of Engineers	$ 12.1
Other Defense Organizations Working Capital Funds	$ (9.3)
Other Defense Components	$ (1.1)
Total	**$ 15.5**

The increase in intra-governmental payables was primarily the result of new trust fund payables. The U.S. Corps of Engineers is the lead agency for reporting the Inland Waterways and the Harbor Maintenance Trust Funds. Based on a change in accounting procedures, the Corps now reports both the payables and the receivables for transfers of invested balances. This increase is also the result of improved reporting of payables.

Non-Federal Payables

Non-federal accounts payables, net increased $3,681.4 million or 15.2 percent from year-end FY 2002 to year-end FY 2003. The major contributors to the increase were:

	Amount ($ in millions)
Army General Fund	$ 3,121.9
Navy General Fund	$ 232.1
Air Force General Fund	$ 873.9
Army Working Capital Fund	$ (168.6)
Navy Working Capital Fund	$ 303.2
Air Force Working Capital Fund	$(1,702.5)
US Army Corps of Engineers	$ (27.8)
Other Defense Organizations General Funds	$ 360.7
Other Defense Organizations Working Capital Funds	$ 582.5
Medicare-Eligible Retiree Health Care Fund	$ 106.0
Total	**$ 3,681.4**

The net increase in non-federal payables is attributable to the following factors:

- Additional spending for Operations Enduring Freedom, Iraqi Freedom and Noble Eagle. The Department's accounting systems cannot separate Iraqi-related accounts payable from peacetime accounts payable.
- Establishment of Medicare-Eligible Retiree Health Care Fund on October 1, 2002.
- Preparation of trading partner elimination journal vouchers at the consolidated activity group level, reducing the magnitude of the adjustment.
- Reclassification of unsupported, undistributed collections from United States Standard General Ledger (USSGL) account 2120, Disbursements in Transit, to USSGL account 2400, Liability for Deposit Funds, Clearing Accounts and Undeposited Collections, which are reported as Other Liabilities.
- Improved accounts payable reporting procedures implemented in FY 2003.

Other Information Related to Intra-Governmental Accounts Payable

Intra-governmental accounts payable of $101.3 million consists of:

	Amount ($ in millions)
US Army Corps of Engineers	$ 78.1
Other Defense Organizations General Fund	$ 0.5
Other Defense Organizations Working Capital Funds	$ 22.7
Total	**$ 101.3**

Other Information Related to Non-Federal Accounts Payable

Non-federal accounts payable of $27,863.8 million consists of:

	Amount ($ in millions)
Army General Fund	$ 9,089.1
Navy General Fund	$ 1,742.5
Air Force General Fund	$ 7,080.9
Army Working Capital Fund	$ 342.4
Navy Working Capital Fund	$ 2,102.9
Air Force Working Capital Fund	$ 89.0
US Army Corps of Engineers	$ 568.1
Other Defense Organizations General Fund	$ 2,648.0
Other Defense Organizations Working Capital Funds	$ 4,094.9
Medicare-Eligible Retiree Health Care Fund	$ 106.0
Total	**$27,863.8**

Undistributed disbursements

Undistributed disbursements represent the difference between disbursements and collections recorded at the transaction level to a specific obligation, payable, or receivable in the activity field records as opposed to those reported by the U.S. Treasury via the reconciled DD 1329 and DD 1400. These amounts should agree with the undistributed amounts reported on the departmental accounting reports. Intransit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records. These payments are applied to the entities' outstanding accounts payable balance.

Allocation of Undistributed Disbursements

The Department of Defense policy is to allocate supported undistributed disbursements between federal and non-federal categories based on the percentage of federal and non-federal accounts payable. The majority of the DoD Components reported following this allocation procedure, however, Army General Fund and Army Working Capital Fund allocated supported undistributed disbursements solely to non-federal accounts payable. Unsupported undistributed disbursements are recorded in United States Standard General Ledger (USSGL) account 2120, Disbursements in Transit.

Intra-governmental Eliminations

For the majority of the intra-agency sales, the Department of Defense's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the reporting entities were unable to reconcile intra-governmental accounts payable to the related intra-governmental accounts receivable that generated the payable.

The Department of Defense summary-level seller accounts receivable balances were compared to the Agencies' accounts payable. Adjustments were posted to the Agencies' accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the Agencies. Positive differences were treated as unrecognized accounts payable.

Note Reference

See Note Disclosure 1.G., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing accounting for Intra-governmental Activities.

Note 13.	Debt

As of September 30	2003						2002	
(Amounts in millions)	Beginning Balance		Net Borrowings		Ending Balance		Ending Balance	
1. Public Debt:								
A. Held by Government Accounts		N/A		N/A		N/A		N/A
B. Held by the Public		N/A		N/A		N/A		N/A
C. Total Public Debt		N/A		N/A		N/A		N/A
2. Agency Debt:								
A. Debt to the Treasury	$	81.5	$	(0.2)	$	81.3	$	81.5
B. Debt to the Federal Financing Bank		792.8		(175.9)		616.9		792.8
C. Debt to Other Federal Agencies		0.0		0.0		0.0		0.0
D. Total Agency Debt	$	874.3	$	(176.1)	$	698.2	$	874.3
3. Total Debt:	$	874.3	$	(176.1)	$	698.2	$	874.3
4. Classification of Debt:								
A. Intra-governmental Debt					$	698.2	$	874.3
B. Non-Federal Debt						N/A		N/A
C. Total Debt					$	698.2	$	874.3
5. Other Information:								

Debt to the Treasury

<u>Loan Subsidy Program Related to the Family Housing Improvement Fund's Military Housing Privatization Initiative (MHPI)</u>

The outstanding amount consists of interest and principal payments due to the Treasury. Funds in this account are used to provide direct loans to borrowers to acquire housing previously maintained and operated by the military under the MHPI. The outstanding debt of $ 63.9 million reflects a $7.1 million increase from the September 30, 2002 net borrowings. This increase is primarily due to Elmendorf AFB Alaska borrowing money from the US Treasury.

The U.S. Army Corps of Engineers Promissory Notes with the Treasury Fund Capital Improvements to the Washington Aqueduct

During FY 1997, 1998, and 1999, the U.S. Army Corps of Engineers executed three promissory notes totaling $75.0 million with the Department of the Treasury. Funds provided were used for capital improvements to the Washington Aqueduct. Arlington County and Falls Church, Virginia and the District of Columbia provide funding to repay the debt. During fiscal year 2003, actual drawdown of funds from the Treasury total $1.5 million. Principal repayments during fiscal year 2003 total $8.7 million.   The decrease from FY 2002 represents principal repayments towards liquidating the debt.

Debt to the Federal Financing Bank (FFB)

Fluctuations and/or Abnormalities

Debt to the FFB decreased by $175.9 million from FY 2002 primarily as a result of FY 2003 reduction of the outstanding debt principal amount for the Department of the Navy Transportation Activity Group ($135.1 million) and the U.S. Transportation Command ($40.2 million).

The Department of Navy

As part of the Afloat Prepositioning Force (APF-N) program, the Department of the Navy makes loan repayments to the Treasury FFB on behalf of ship owners and in lieu of capital lease payments to these same ship owners.   The FFB is reporting a debt in the amount of $615.6 million, which represents an outstanding principal balance of $606.2 million and accrued interest payable of $9.4 million, for the Transportation Activity.   See Notes 3 and 6 for additional disclosures.

The United States Transportation Command

The debt consists of the principal and accrued interest balances left on the Military Sealift Command's (MSC) T-5 program that provides ships for time charter to MSC to meet requirements not available in the marketplace. The ships were financed with approximately 30 percent equity investments and 70 percent debt borrowings. The debt is in the form of loans from the FFB to the vessel owners. In order to simplify the payments, the FFB cross-disburses the semi-annual principal payments directly from the working capital fund. MSC records the equity payments upon receipt of invoices. Interest is paid by voucher rather than by non-expenditure transfer. Information provided by MSC indicates the FY 2003 year-to-date interest expense and accrued interest is $1.3 million as of September 30, 2003. This balance is payable in July 2004. MSC purchased all but the "Darnell:" class T-5 ships.

Balance September 30, 2002 (millions)	41.4
Payments made during FY 2003	(40.2)
Principal Balance September 30, 2003	1.2
Accrued Interest September 30, 2003	0.1
Total Outstanding Debt September 30, 2003	1.3

Note Reference

See Note Disclosure 1. G. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30 (Amounts in millions)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 1,626.8	$ 10,207.0	$ 11,833.8	$ 13,033.7
2. Active Installations--ER for Closed Ranges	37.4	4,324.7	4,362.1	1,705.1
3. Formerly Used Defense Sites (FUDS) -- ER	265.0	3,974.4	4,239.4	4,304.8
4. FUDS--ER for Transferred Ranges	128.2	13,496.2	13,624.4	11,220.3
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	74.7	486.3	561.0	456.3
2. Active Installations--Environmental Closure Requirements	9.4	94.2	103.6	109.7
3. Active Installations--Environ.Response at Active Ranges	60.5	215.8	276.3	292.2
4. Other	0.4	49.6	50.0	31.7
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	730.4	2,886.2	3,616.6	4,015.0
2. BRAC Installations--ER for Transferring Ranges	14.3	497.3	511.6	397.4
3. BRAC Installations--Environmental Corrective Action	7.2	180.7	187.9	208.6
4. Other	190.4	0.0	190.4	269.7
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0.0	5,565.0	5,565.0	4,890.0
2. Nuclear Powered Submarines	0.0	4,888.9	4,888.9	4,888.9
3. Other Nuclear Powered Ships	0.0	269.1	269.1	269.1
4. Other National Defense Weapons Systems	4.7	292.4	297.1	278.3
5. Chemical Weapons Disposal Program	1,387.8	9,422.5	10,810.3	12,817.3
6. Other	103.0	0.1	103.1	165.1
2. Total Environmental Liabilities:	$ 4,640.2	$ 56,850.4	$ 61,490.6	$ 59,353.2
3. Other Information Related to Environmental Liabilities:				

The Department of Defense (DoD) is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public health or environmental risk. The DoD does this in coordination with regulatory agencies, and if applicable, with other responsible parties, and current property owners. The Department is also required to recognize closure and post closure costs for its General Plant Property and Equipment and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal of costs including weapons systems, and environmental costs related to the base realignment closures that have taken place in prior years.

Methodology Used to Estimate Environmental Liabilities

The Department is currently using two independently validated estimating models in addition to engineering estimates. The validation was performed in accordance with DoD Instruction 5000.61. The models are the Remedial Action Cost Engineering Requirements (RACER) model and the Department of Navy Cost-to-Complete (CTC) module of the Navy Normalization of Data System (NORM). Additionally, cost estimates are based on the following: (1) historic comparable project, (2) a specific bid or independent government cost estimate for the project, (3) site level data, and (4) annual cost-to-complete estimate. The cost-to-complete estimate is prepared in the Defense Environmental Restoration Program (DERP) in accordance with the Management Guidance for the DERP and the DoD FMR 7000.14.

General Disclosures

<u>Sources of Cleanup Requirements</u>

The DoD has cleanup requirements for the Defense Environmental Restoration Program (DERP) sites at active and BRAC installations and Formerly Used Defense Sights (FUDS), non-DERP at active installations, weapon systems programs, and chemical weapons disposal programs. The DoD follows the Comprehensive Environment Response, Compensation Liability Act (CERCLA) and the Superfund Amendment and Reauthorization Act (SARA) to clean up DERP-eligible contamination. Non-DERP eligible contamination cleanup is performed in accordance with the Resource Conservation and Recovery Act (RCRA). The Army is DoD Executive Agent for cleaning up contamination at sites formerly used by DoD. The CERCLA and RCRA require DoD to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners. Failure to comply with agreements and legal mandates can put DoD at risk of fines and penalties.

The Chemical Weapons Disposal Program is based on the fiscal year 1986 National Defense Authorization Act (PL 99-145, as amended by subsequent acts) that directed the DoD to destroy the unitary chemical stockpile by April 29, 2004. The Army, as Executive Agent within the DoD, provides policy, direction, and oversight for both the Chemical Stockpile Program and the Non-Stockpile Chemical Materiel Project. As such, the Army is responsible for the safe and economical disposal of the U.S. stockpile of lethal and incapacitating chemical warfare agents and munitions. The program objective is to destroy the U.S. Stockpile of unitary chemical agents and munitions in accordance with the public law and the schedules approved by the Defense Acquisition Decision Memorandum dated September 26, 2001, and updated in the April 2003 Acquisition Program Baseline.

The nuclear powered aircraft carriers, submarines, and other nuclear ships clean-up requirements are based on the following significant laws, which affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, the Department coordinates all actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 required all owners and generators of high-level nuclear waste and spent nuclear fuel, to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986 provides for the safe and efficient management of low-level radioactive waste.

Method for Assigning Estimated Total Cleanup Costs (DERP & BRAC Funded)

The estimated total cleanup cost for the current operating period is assigned based on the amount of the current year appropriation. The total cleanup cost is the cost to complete cleanup and unliquidate obligations that will be expended within 12 months from the Balance Sheet date.

Unamortized Portion of Estimated Total Cleanup Costs

The DoD has not identified any unamortized portion of the estimated total cleanup cost associated with General Property, Plant and Equipment (PP&E). The Department's Financial Management Regulation requires the unamortized clean-up cost associated with PP&E to be recognized. Air Force is currently booking the entire environmental disposal cost associated with PP&E. The Department is working with the Military Departments to ensure the regulation is properly implemented.

Material Changes in Total Estimated Liability Costs Due to Changes in Laws, Technology, or Plans

The Department of Army has no material changes in the total estimated liability due to changes in laws, technology, or plans. The major change in technology affecting the liability estimate was standardizing the use of the estimating tools consistently across the Army programs.

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes for sites that had over 10 percent change or $.5 million indicates diverse reasons for change in estimates. Multiple reasons may apply both as increases or decreases at any site. The reasons for changes are estimation changes (26 percent), regulatory changes (60 percent), and technical changes (15 percent). Reasons for changes in estimation are as follows: cost to complete (CTC) overlooked or previously unknown contaminants, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the regulatory area are as follows: addition of range rule/munitions requirements, additional or extended long-term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk-based corrective action. Reasons for changes in the area of technology are as follows: additional contamination level sampling, additional or extended remedial action operation, additional sites and incomplete site data, and technical solution changed.

The Department of the Air Force has no material changes in the total estimated liability due to changes in laws, technology, or plans.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Department of Army estimates used for environmental liability calculations are estimates of the cost to complete at all activities at a site of environmental concern. The cost estimates are calculated at the site-level using a validated cost-estimating model or an engineered cost and entered into a database. There were no changes to the total liability cost due to inflation, deflation, technology, or applicable laws and regulations.

Changes in the Liability Estimate from FY 2002

Accrued Environmental Restoration (DERP-funded) Costs

The Active Installations - Environmental Restoration liability decreased by $1,199.9 million (9 percent). The majority of the change is attributed to the following. The Department of Army liability decreased $472.4 million due to disbursements of unliquidated current obligations and the award of several performance-based contracts. The Department of Air Force decrease of $335.4 million is the result of aggressive work by the Air Force Environmental Restoration Tiger Team to establish a new policy relative to Areas of Concern (AOCs)/Not Evaluated (NE) Sites. Also, additional guidance provided to the field has improved cost estimating and reporting in the Air Force Restoration Information Management System (AFRIMS) and improved data fidelity. The Department of the Navy decrease of $388.7 million is the result of adjusted projections using more conservative estimates that approximate the expected rate of execution.

The Active Installations - Environmental Restoration for Closed Ranges category had a net increase of $2,657.0 million (156 percent). The majority of the change is the result of changes in the Department of the Army's environmental liability for closed ranges. Department of the Army had a substantial increase ($2,533.3 million) due to an additional 39 percent of site level data collected through the Army range inventory, which is 52 percent complete.

For the Formerly Used Defense Sites - Environmental Restoration for Transferred Ranges, the Department of the Army was the sole contributor to the 21 percent liability increase. In addition to over 50 new projects, the Army's estimated cost for clearance of total range acreage increased almost 40 percent due to better data quality from newly prepared range characterization reports and changes in the DoD's database definitions for land use restrictions. Faced with 14 million or more acres of ranges that may require response action, no cleanup goals or standards, technology shortfalls, and changing interpretations of what constitutes a range, it is expected that cost-to-complete will fluctuate during the next several years.

Other Accrued Environmental Costs (Non-DERP Funds)

Active Installations - Environmental Corrective Action increased $104.7 million or 23 percent mainly because of changes in the Defense Logistics Agency and the Department of Air Force liabilities. The Department of the Air Force liability increased by

$29.3 million due to an error in reporting liability amounts in FY 2002. A Defense Logistics Agency activity, Defense Energy Support Center (DESC), recorded $68.8 million for environmental cleanup costs for the first time. No liability was shown for FY 2002 because the accrual amount was not available until after the financial statements were finalized. It is noted that FY 2002 was the first year such data was gathered and complete figures were not available at the time of the annual statement. (The additional liability amounts were reported during the audit to DLA's auditing firm.)

Active Installations - Environmental Response at Active Ranges liability had a net decrease of $15.9 million. The Department of the Army liability decreased by $27.9 million, and the major factors contributing to the changes are improved cost estimates and revised estimated cleanup levels. The DoD Component reporting entity reported an increase of $12.0 million, which is a result of clean up efforts at installation training range facilities. In FY 2002 the amount was reported in the total for the Environmental Disposal for Weapons System Program.

The Other Accrued Environmental Costs - Other category had a net increase of $18.3 million (57 percent). The net increase is due to the Department of the Army removing liability amounts ($15.2 million) for the Low Level Radioactive Waste (LLRW) Disposal Program. This program facilitates the process of identifying, investigating, and remediating sites contaminated by low-level radioactive waste through RCRA corrective actions or Comprehensive Environmental Response, Compensation, and Liability Act response actions. The program liabilities were classified as possible and remote for year-end FY 2003 financial reporting. Additionally, the DoD Component reporting entity environmental liabilities increased by $33.5 million and is the result of the liability amount being erroneously moved between programs. Corrections were made to properly categorize these costs in FY 2003.

Base Realignment and Closure (BRAC)

The BRAC Installations - Environmental Restoration had a net decrease of $398.4 million. The Military Services accounted for the majority of the decrease. The Department of the Army accounted for $56.5 million, which is due to re-characterization of sites. The Department of Navy accounted for $137.4 million, which is the result of using more conservative estimates that approximate the expected rate of execution. The Department of Air Force accounted for $174.7 million of the decrease. The Air Force decrease is primarily because of focused management oversight of the Air Force Restoration Information Management System (AFRIMS) data and the critical review of restoration costs and schedule maintained in AFRIMS.

The BRAC Installations - Environmental Restoration for Transferring Ranges had a net increase of $114.2 million (29 percent). The Department of the Army and the Department of the Navy attributed to the net increase in transferring ranges liability. The Department of Army increase of $128.5 million is due to the addition of new sites with the completion of the range inventory. The Department of the Navy liability decreased by $14.3 million and is the result of adjusted predictions using more conservative estimates that approximate the expected rate of execution.

The BRAC Installations - Environmental Corrective Action liability net decrease is mainly due to the Department of Army's liability decreasing by $24.3 million. The major factor contributing to the Army's decrease is current estimates that support regulatory closure.

For the BRAC Realignment and Closure - Other the Department of the Army was the sole contributor to the decrease of $79.3 million or 29 percent. The major factor contributing to the change is disbursements of current liability unliquidated obligations.

Environmental Disposal for Weapons Systems Programs

The Nuclear Powered Aircraft Carriers environmental liability increased by $675.0 million or 14 percent. The increase is the result of adding the environmental liability of an aircraft carrier, the Ronald Reagan, and an adjustment for inflation.

The Chemical Weapons Disposal Program total of $10,810.3 million for year-end FY 2003 is based on the probable costs for the Program Manager for Elimination of Chemical Weapons (PMECW), the Chemical Stockpile Emergency Preparedness Project, and the Project Manager for the Assembled Chemical Weapons Alternatives (PMACWA). The liability estimate decreased by $2,007.0 million or 16 percent from the FY 2002 total and is due primarily to the use of a new Acquisition Program Baseline to formulate the PMECW estimate. As designs mature for the disposal technologies to be used by the PMACWA at Army facilities, future liabilities reported may change materially.

The Environmental Disposal for Weapons Systems Programs - Other category has a net decrease of $62.0 million or 38 percent. This net decrease is due to the DoD Component reporting entity environmental liabilities being erroneously moved between programs. Corrections were made to properly categorize these costs in FY 2003.

Ranges

The Department of Army estimated its environmental liability for closed, transferred and transferring ranges at $17,303.1 million. The Army has completed 100 percent of the inventory of transferred ranges at 1,701 formerly used properties and transferring ranges at 63 sites. The Army continues to inventory closed ranges at 443 sites and is 52 percent complete.

Beginning in FY 2001, the Department of the Navy began an inventory of closed and transferring ranges under the Munitions Response Program and the Unexploded Ordnance Program. The inventory was completed September 2002 and contains 196 closed ranges and 16 transferring ranges.

The Department of Air Force environmental liabilities on ranges refer only to munitions related activities. Other actions are captured under the DERP, BRAC and non-DERP non-BRAC environmental cleanup categories. The environmental liability is reported only for closed ranges that number 260 as of September 30, 2003.

- Closed Ranges

  The Department of Army and the Department of Navy must expend $3,182.7 million and $341.3 million, respectively, to characterize, investigate and cleanup closed ranges. Until such characterization is completed, total environmental liabilities cannot be estimated. Closed ranges have been taken out of service as a range and put to new use (incompatible with range activities) or are not considered by the military to be a potential range area. A closed range is still under the control of a DoD Component. For FY 2003, the Navy determined that it owns 196 closed ranges.

  The Department of Air Force identified 260 closed ranges that resulted in an estimated environmental cleanup liability of $838.1 million. The total liability is expected to increase significantly over the coming years as the Air Force continues to refine the inventory and expand investigations of other closed ranges.

- Transferring Ranges

  The Department of Army has completed 100 percent of the inventory of transferring ranges. The current liability estimate is $496.0 million. Additionally, the Department of the Navy estimated and reported $15.6 million for transferring ranges, which includes military munitions, chemical residues, and munitions scrap. Transferring ranges are proposed for transfer or will be returned from DoD to another entity, including other federal entities.

- Transferred Ranges

  The Department of Army has completed the inventory of transferred ranges with site level cost data collected from 1701 properties. Currently, the estimated liability for those ranges is $13,624.4 million. Transferred ranges are properties formerly used as a military ranges that are no longer under military control or lease and have been transferred, or returned from the DoD to another entity, including federal entities.

- Active Ranges

  At this time, the Department of Army is conducting only one active range investigation and characterization, that being the Massachusetts Military Reservation. The cost of the characterization and investigation is $264.3 million. This amount pays for sampling and analysis, groundwater monitoring, feasibility studies, soil and groundwater cleanup, and Unexploded Ordinance (UXO) investigation and response. Currently, the active ranges include military ranges that are being regularly used, but are considered by the cognizant Military Service to be a potential range area.

Service Component – Environmental Restoration (Cleanup) Liabilities and Environmental Disposal Liabilities (Amounts in millions)	Army	Navy	Air Force	ODO
1. Environmental Liabilities:				
B. Non-Federal:				
1. Accrued Environmental Restoration (Defense Environmental Restoration Program (DERP) funded) Costs:				
a. Active Installations-Environmental Restoration (ER)	$ 3,696.1	$ 3,132.1	$ 4,902.0	$ 103.6
b. Active Installations--ER for Closed Ranges	3,182.7	341.3	838.1	
c. Formerly Used Defense Sites (FUDS) –ER	4,239.4			
d. FUDS--ER for Transferred Ranges	13,624.4			
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations--Environmental Corrective Action	287.9		204.3	68.8
b. Active Installations--Environmental Closure Requirements	37.2		66.4	
c. Active Installations--Environ. Response at Active Ranges	264.3			12.0
d. Other				50.0
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations--Environmental Restoration (ER)	518.7	1,155.9	1,909.0	33.0
b. BRAC Installations--ER for Transferring Ranges	496.0	15.6		
c. BRAC Installations--Environmental Corrective Action	48.0		139.9	
d. Other	190.4			
4. Environmental Disposal for Weapon Systems Programs				
a. Nuclear Powered Aircraft Carriers		5,565.0		
b. Nuclear Powered Submarines		4,888.9		
c. Other Nuclear Powered Ships		269.1		
d. Other National Defense Weapon Systems		246.5	50.6	
e. Chemical Weapons Disposal Program	10,810.3			
f. Other				103.1
5. Total Non-Federal Environmental Liabilities:	$ 37,395.4	$ 15,614.4	$ 8,110.3	$ 370.5

Other Information

Others Category Disclosure Comparative Table

Types		September 30, 2003 ($ in Millions)
Other Accrued Environmental Costs (Non-DERP funds) - Other		
Defense Threat Reduction Agency Estimated Clean up Cost-ODO		1.5
DoD Component Level Estimated Clean up Cost-ODO		35.1
Defense Commissary Agency-ODO		13.4
Total	**$**	**50.0**
BRAC – Other		
Army's Prior Year BRAC ULOs That Cannot Be Identified To A Specific Program	$	190.4
Environmental Disposal for Weapons Systems Programs-Other		
National Defense Stockpile -ODO		
Thorium Nitrate Disposal or Upgrade	$	58.0
Long Term Storage or Repackaging Mercury		19.2
Cleanup Costs		19.9
Badalite Ore Disposal		6.0
Total	**$**	**103.1**

Note 15.A. Other Liabilities

As of September 30 (Amounts in millions)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
1. Intra-governmental:				
A. Advances from Others	$ 272.5	$ 0.0	$ 272.5	$ 331.2
B. Deferred Credits	0.0	0.0	0.0	0.0
C. Deposit Funds and Suspense Account Liabilities	372.3	0.0	372.3	318.5
D. Resources Payable to Treasury	0.0	0.0	0.0	1,053.4
E. Disbursing Officer Cash	1,509.4	0.0	1,509.4	696.9
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0.0	0.0	0.0	0.0
(2) Excess/Obsolete Structures	0.0	0.0	0.0	0.0
(3) Conventional Munitions Disposal	0.0	0.0	0.0	0.0
(4) Other	0.0	0.0	0.0	0.0
G. Accounts Payable-- Cancelled Appropriations	7.0	0.0	7.0	0.0
H. Judgement Fund Liabilities	344.1	247.3	591.4	638.2
I. FECA Reimbursement to the Department of Labor	594.5	826.3	1,420.8	1,415.0
J. Capital Lease Liability	0.0	0.0	0.0	0.0
K. Other Liabilities	3,795.5	1,770.2	5,565.7	3,760.4
L. Total Intra-governmental Other Liabilities	$ 6,895.3	$ 2,843.8	$ 9,739.1	$ 8,213.6

As of September 30 (Amounts in millions)	2003 Current Liability	2003 Noncurrent Liability	2003 Total	2002 Total
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	$ 9,118.0	$ 0.0	$ 9,118.0	$ 9,138.6
B. Advances from Others	1,167.3	0.0	1,167.3	1,194.0
C. Deferred Credits	9.7	0.0	9.7	6.4
D. Loan Guarantee Liability	0.0	0.0	0.0	0.0
E. Liability for Subsidy Related to Undisbursed Loans	0.0	0.0	0.0	0.0
F. Deposit Funds and Suspense Accounts	272.4	(167.1)	105.3	50.1
G. Temporary Early Retirement Authority	5.2	3.3	8.5	29.1
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0.0	574.9	574.9	566.1
(2) Excess/Obsolete Structures	93.2	301.7	394.9	395.1
(3) Conventional Munitions Disposal	0.0	1,198.8	1,198.8	1,424.3
(4) Other	0.0	0.0	0.0	27.0
I. Accounts Payable--Cancelled Appropriations	426.7	175.6	602.3	679.6
J. Accrued Unfunded Annual Leave	7,644.9	0.4	7,645.3	6,959.3
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0.0	0.0	0.0	0.0
L. Capital Lease Liability	44.7	291.7	336.4	367.2
M. Other Liabilities	6,347.9	1,600.0	7,947.9	8,958.5
N. Total Non-Federal Other Liabilities	$ 25,130.0	$ 3,979.3	$ 29,109.3	$ 29,795.3
3. Total Other Liabilities:	$ 32,025.3	$ 6,823.1	$ 38,848.4	$ 38,010.4

4. Other Information Pertaining to Other Liabilities:

Fluctuations and/or Abnormalities- Intra-governmental Other Liabilities:

Total Intra-governmental Other Liabilities Fluctuation Analysis
Total Intra-governmental Other Liabilities increased $1,525.5 million (19 percent) from year-end FY 2002 through year-end FY2003. The following item(s) contributed to the majority of the overall change:

Advances from Others (Line 1.A.):
Advances from Others decreased $58.7 million (18 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Air Force General Fund (GF) decreased $79.0 million (45 percent). The decrease is due to the timing of the receipt and execution of orders which causes variations in its year-end balances.
- Navy Working Capital Fund (WCF) increased $33.8 million (45 percent). The increase occurred in Depot Maintenance Shipyards and the Naval Air Warfare Center (NAWC), a Research and Development activity. The increase is associated with the conversion from the DoD Industrial Financial Management System to SIGMA, an Enterprise Resource Planning System. The conversion of funding produced a reclassification between intra-governmental and public, which now ensures the proper posting of this account. Additionally, there were program problems encountered in the billing area that have hampered the ability to bill certain customers. Once the bills are produced, the appropriate customer advances will be liquidated.
- Army GF decreased $8.2 million (13 percent). The decrease is attributable to the Drug Enforcement Training Program that purchases equipment and training materials for state and local law enforcement officials. A large dollar amount was obligated on these contracts in FY 2003 and the majority was executed.
- United States Army Corps of Engineers (USACE) decreased $7.1 million (40 percent) as a result of work completion and advances being earned.
- Air Force WCF increased $1.5 million. With the implementation of DIFMS in FY 2003, DMAG changed its procedures on revenue recognition from the incremental revenue recognition (IRR) to the percentage of completion method, resulting in advances being recorded versus progress billings.

<u>Deposit Funds and Suspense Account Liabilities (Line 1.C):</u>
Deposit Funds and Suspense Account Liabilities increased by $53.8 million (17 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Army GF increased $69.0 million. The majority of this increase is attributable to the Army member Savings Deposit-Desert Shield/Desert Storm Savings program and the Servicemen’s Group Life Insurance Funds, Suspense, Department of Army. The Savings Deposit Program increased primarily due to cash contributions and allotment deductions from service members stationed in the Southwest Asia/Persian Gulf Region who are drawing imminent danger pay. Also included are interest deposits from the military appropriation. Army Servicemen's Group Life Insurance Funds, Suspense, Department of Army increased primarily due to more servicemen and women supporting the contingency missions in the war zones around the globe.
- ODO GF increased $17.6 million (44 percent). The fluctuation relates to the accounting treatment for deposit funds and clearing accounts throughout the fiscal year. At fiscal year-end, all receipt accounts are considered withdrawn to the Treasury, and certain clearing accounts are closed or transferred to the Treasury. At the beginning of each fiscal year, these fund accounts are re-established and accounted for until closed or transferred at year-end.
- Navy GF decreased $26.9 million (11 percent). A $26.9 million reduction in the nonentity fund balance with Treasury occurred primarily as a result of a $47 million decrease in withheld state and local taxes, and a $28 million decrease of defense military receipts not other classified. The decrease is offset by an increase of $55 million in recoveries under Foreign Military Sales.
- USACE decreased $13.9 million (96 percent). Deposit funds and suspense account liabilities were reduced with the disposition of a disputed collection related to a water storage contract.

- Air Force GF increased $7.9 million (51 percent). The increase is related to intra-governmental paying and collection (IPAC) transactions and the Uniformed Services Thrift Savings Plan (TSP) deductions, which are posted to suspense accounts. IPAC transactions are aged and monitored to ensure they are cleared timely. The Uniformed Services TSP represents a timing difference between the posting of the TSP deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

Resources Payable to Treasury (Line 1.D.):
Resources Payable to Treasury decreased $1,053.4 million (100 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Air Force GF decreased $1,006.9 million (100 percent). The decrease is due to the reclassification of cancelled authority for recording accounts receivable.
- Navy GF decreased $.9 million (100 percent). The decrease is due to the reduction in interest payable to Treasury for Marine Corps.
- U.S. Army Corps of Engineers decreased $33.6 million (100 percent). Resources payable to Treasury were used in FY 2002 to record the offset to accounts receivable in receipt accounts. The receipts are collected into Treasury receipt accounts. In accordance with an audit recommendation, these liabilities are now reported in line 1K, Other Liabilities.
- ODO GF decreased $11.6 million. The decrease is based on efforts associated with the tri-annual review of outstanding accounts receivable accounts. Accounting offices were directed to review and validate their open accounts receivable amounts. As a result of this initiative, there were no outstanding resources payable to the Treasury reported for FY 2003.

Disbursing Officer Cash (Line 1.E):
Disbursing Officer Cash increased $812.4 million (117 percent) from year-end FY 2002 through year-end FY 2002. The following item(s) contributed to the majority of the overall change:

- Army GF increased $651.7 million (217 percent) in support of contingency missions for Operation Iraqi Freedom and Operation Enduring Freedom.
- Navy GF increased $152.3 million (117 percent) in support of contingency missions for Operation Iraqi Freedom and Operation Enduring Freedom.

Accounts Payable – Cancelled Appropriations (Line 1.G):
ODO GF increased $7.0 million from year-end FY 2002 through year-end FY 2003. The increase is attributed to the Missile Defense Agency (MDA). The accounts payable cancelled appropriation is based on unliquidated cancelled appropriation unearned revenue which requires a refund. This $6.9 million account will remain recorded until the refund is completely executed.

Other Liabilities (Line 1.K.):
Other Liabilities increased $1,805.3 million (48 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Air Force GF increased $556.6 million. The increase is primarily due to the reclassification of resources payable to Treasury to other liabilities, which resulted in an increase of $449.2 million. The increase in other liabilities also represents $33.0 million in government contributions for employee benefits and $27.4 million in other unfunded unemployment compensation liabilities.
- U.S. Army Corps of Engineers increased $999.8 million (112 percent). The increase is due to the reporting of the offset for long-term interest receivables. Interest receivables and the corresponding liability were not reported in FY 2002 and prior periods because the interest had not been earned yet. In accordance with an audit recommendation, the Corps is now including the offset for interest receivable in the amount of $881.9 million. The remaining increase is due to changes in reporting resources payable to the Treasury.
- Navy GF increased $306.5 million (13 percent). The majority of the change occurred in nonentity public account receivable, which increased based upon improved efforts in identifying receivables and interest on these receivables. All receivables are payables to the Treasury.
- ODO GF decreased $76.2 million (64 percent). The decrease is due to the disbursement of all liabilities for subsidies related to undisbursed loans, which were reported in FY 2002 for $86.6 million. The disbursement of these loans decreased the total amount of other liabilities reported for FY 2003. The remainder of the difference from FY 2003 to FY 2002 is attributable to multiple entities, which individually do not comprise 10 percent of the total change.

Judgement Fund Liabilities (Line 1.H.):
Judgement Fund Liabilities decreased $46.8 million (7 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Navy GF decreased $56.6 million (54 percent) due to the aggressive effort by the Navy to reconcile and resolve claims under the Contract Dispute Act.
- Air Force GF decreased $51.5 million (17 percent). The decrease is due to the Air Force paying approximately $52.5 million more to the Treasury on debts owed than Treasury billed to the Air Force in new debts.
- Army GF increased $68.9 million (92 percent) due to a litigation settlement.

Fluctuations and/or Abnormalities- Non-Federal:

Total Non-Federal Fluctuation Analysis
Total Non-Federal Other Liabilities decreased $686.0 million (2 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

Other Liabilities (Line 2.M.):
Other Liabilities decreased $1,010.6 million (11 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Air Force WCF decreased $1,277.1 million (43 percent). This decrease is attributable to the following factors:
  - Progress billings of $915 million are no longer recorded due to the change in revenue recognition by Depot Maintenance Activity Group (DMAG). Under the new method, advances are lower than the FY 2002 progress billings due to a $386 million decrease attributable to Contract DMAG being removed from the Air Force WCF, and $209.7 million in eliminations with the Supply Management Activity Group (SMAG).
  - Work in process for DMAG decreased $342.2 million, which is attributable to contract DMAG being removed from the Air Force WCF. The reduction in contracts has resulted in a decline in material, labor and overhead costs and accruals.
  - Future purchases from Foreign Military Sales in SMAG has decreased $19 million.
- Army GF increased $382.9 million (18 percent). This increase is primarily attributed due to the reporting of $283 million of contingent liabilities, $278.1 million of custodial liability for seized Iraqi cash, and $57.7 million of employer contributions. The total contingent liabilities increase is due to the capturing and reporting of information for the first time from the U.S. Army Legal Services Agency's Environmental Law Division and Contract Appeals Division. Contract holdbacks decreased $246.3 million from a change implemented at DFAS in the computation of contract holdbacks.

Nonenvironmental Disposal Liabilities, Conventional Munitions Disposal (Line 2.H.3):
Nonenvironmental Disposal Liabilities, Conventional Munitions Disposal decreased $225.5 million (16 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Army GF decreased $231.3 million (16 percent). Of this amount, $69.5 million is due to a stockpile reduction, while the remaining $161.9 million decrease is the result of a new weighted average cost per ton.
- Air Force GF increased $5.8 million. Previously, this liability was only disclosed in the notes, but for FY2003 it is included in the audited financial statements.

Nonenvironmental Disposal Liabilities, Other (Line 2.H.4):
Nonenvironmental Disposal Liabilities, Other, decreased $27.0 million (100 percent) from year-end FY 2002 through year-end FY 2003. This amount ($26.9 million) was erroneously recorded to nonenvironmental disposal liabilities - other. The error was identified and corrected for FY 2003 resulting in a zero balance.

Accrued Unfunded Annual Leave (Line 2.J.):
Accrued Unfunded Annual Leave increased $686.0 million (10 percent) from year-end FY 2002 through year-end FY 2003. The following item(s) contributed to the majority of the overall change:

- Air Force GF increased $478.3 million (29 percent). This is a result of increases in military and civilian leave balances. The increase in military leave is impacted by the activation of military personnel in support of the war in Iraq, because the use of leave is restricted during a war.

- Navy GF increased $237.2 million (12 percent). This amount includes Navy personnel involved in the war effort. The majority of the increase is in Military personnel appropriations.
- Army GF decreased $77.7 million (3 percent). The liability for civilian leave decreased $260 million as the liability for military leave increased $183.2 million.

Other Information Related to Other Liabilities:

Intra-governmental Other Liabilities (Line 1.K.) increased by $1,805.3 million (48 percent). The table below depicts approximately 99 percent of the Intra-governmental Other Liabilities by Entity:

Intra-governmental Other Liabilities (Line 1.K) for 2003 (millions)			
Entity	**Current Liability**	**Non Current Liability**	**Total Liability**
Navy GF	2,740.1	.09	2,740.2
Navy WCF	49.6		49.6
Air Force GF	621.4		621.4
Air Force WCF	6.1		6.1
Army GF	169.0		169.0
Army WCF	11.3		11.3
USACE	135.7	1,759.7	1,895.4
ODO GF	42.7	.8	43.5
ODO WCF	18.6	9.4	28.0
MRF	.7		.7
		Total	**5,565.2**

Non-Federal Other Liabilities (Line 2.M.) decreased by $1,010.6 million (11 percent). The table below depicts approximately 99 percent of the Non-Federal Other Liabilities by Entity:

Non-Federal Other Liabilities (Line 2.M.) for 2003 (millions)			
Entity	**Current Liability**	**Non Current Liability**	**Total Liability**
Navy GF	124.9	71.6	196.5
Navy WCF	1,956.3		1,956.3
Air Force GF	.8	189.2	190.0
Air Force WCF	1,725.2		1,725.2
Army GF	1,171.4	1,335.1	2,506.5
Army WCF	39.6		39.6
USACE	144.6		144.6
ODO GF	1,019.4	.4	1,019.8
ODO WCF	165.1	3.7	168.8
MRF	.2		.2
		Total	**7,947.5**

The Department may incur additional liabilities in FY 2004 due to legislation making TRICARE, the military's health care program available to members of the National Guard and the reserves when they are not on active duty.

Note 15.B. Capital Lease Liability

As of September 30 (Amounts in millions)	2003 Asset Category Land and Buildings	Equipment	Other	Total	2002 Total
1. Future Payments Due:					
A. 2004	$ 66.5	$ 0.9	$ 0.0	$ 67.4	$ 69.6
B. 2005	66.4	0.0	0.0	66.4	67.9
C. 2006	66.1	0.0	0.0	66.1	67.1
D. 2007	60.2	0.0	0.0	60.2	66.1
E. 2008	47.5	0.0	0.0	47.5	60.2
F. After 5 Years	184.4	0.0	0.0	184.4	220.5
G. Total Future Lease Payments Due	$ 491.1	$ 0.9	$ 0.0	$ 492.0	$ 551.4
H. Less: Imputed Interest Executory Costs	155.6	0.0	0.0	155.6	184.2
I.Net Capital Lease Liability	$ 335.5	$ 0.9	$ 0.0	$ 336.4	$ 367.2
2. Capital Lease Liabilities Covered by Budgetary Resources:				$ 326.1	$ 336.5
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				$ 127.2	$ 165.2
4. Other Information:					

Fluctuations and/or Abnormalities:

The liabilities associated with capital leases are often not recorded in legacy systems. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented. The decrease between year-end FY 2002 and year-end FY 2003 was caused by a classified program within the Department Component Level Accounts.

<u>Capital Lease Liabilities Not Covered by Budgetary Resources</u>

For the Department of Defense, all leases prior to FY 1992 are funded on a FY basis causing the non-current amounts to be shown as Not Covered by Budgetary Resources. All capital leases and lease purchases entered into after FY 1992 are funded in the first year of the lease.

Capital Lease Liabilities Covered by Budgetary Resources

The leases that originated after FY 1992 are required to be fully funded in the year of their inception. Therefore, Budgetary Resources show the present value of those lease payments as Covered.

The following table compares Capital Leases at year-end FY 2002 to year-end FY 2003.

Comparison of Capital Leases between Year-end FY 2002 and Year-end FY 2003 (amounts in millions)				
Future Payments Due	YE 2002	YE 2003	Increase/Decrease	% Change
A. 2004	$69.6	$67.4	($2.2)	-3%
B. 2005	$67.9	$66.4	($1.5)	-2%
C. 2006	$67.1	$66.1	($1.0)	-1%
D. 2007	$66.1	$60.2	($5.9)	-9%
E. 2008	$60.2	$47.5	($12.7)	-21%
F. 2009 +	$220.5	$184.4	($36.1)	-16%
G. Total	$551.4	$492.0	($59.4)	-11%
H. Less Imputed Interest Executory Costs	($184.2)	($155.6)	$28.6	-16%
I. Net	$367.2	$336.4	($30.8)	-8%
Capital Lease Liability Covered by Budgetary Resources	$336.5	$326.1	($10.4)	-3%
Capital Lease Liability Not Covered by Budgetary Resources	$165.2	$127.2	($38.0)	-23%

Note Reference

- See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

- For regulatory discussion on "Capital Lease Liability," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

Nature of Contingency

The Department is subject to various claims that represent contingent liabilities for the United States Government. While no opinion has been expressed regarding the likely outcome or possible loss associated with specific claims, experience indicates that many claims are settled for less than sought or dismissed altogether. In some cases the possibility of loss is remote. Liabilities are not accrued in the Department's financial statements.

In addition, the Department has other contingent liabilities that are considered reasonably possible. These liabilities are not accrued in the Department's financial statements. As of September 30, 2003, the Department has approximately $13,684.6 million in claims that are considered reasonably possible. The estimates for the Components are included in the table below:

Estimate of the Possible Liability by Major Component

Contingent Liabilities (Amounts in millions)					
	Army	Navy	Air Force	ODO WCF (DLA)	Total
Chemical Demilitarization Non-Stockpile Disposal	8,970.0				8,970.0
Chemical Demilitarization Emergency Preparedness Program					
Contractual Actions		103.9	21.0		124.9
Contractual Commitments		9.9			9.9
Employee Related Actions	0.2	26.3			26.5
Other (foreign country tax)		70.0			70.0
Environmental Claims	10.0				10.0
Judgement Fund Liabilities	10.0				10.0
Claims & Litigation from Civil Law	222.3	5.5	244.7	2,940.0	3,412.5
Site Closure Costs		4.0			4.0
Environment Cleanup Costs					
Army Contract Appeals Division	46.0				46.0
Army Environmental Law Division	107.0				107.0
Network Enterprise Technology Command	0.9				0.9
Low-Level Radioactive Waste Disposal	36.0				36.0
Environmental Restoration	856.9				856.9
TOTAL	10,259.3	219.6	265.7	2.9	13,684.6

See Note Disclosure 1. S. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and Department of Defense policies governing Contingencies and Other Liabilities.

For regulatory discussion on “Commitments and Contingencies,” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1018.

Note 17. Military Retirement Benefits and Other Employment Related Actuarial Liabilities

As of September 30	2003				2002
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
(Amounts in millions)					
1. Pension and Health Benefits:					
A. Military Retirement Pensions	$ 736,061.6	6.25%	$ (176,028.9)	$ 560,032.7	$ 557,646.2
B. Military Retirement Health Benefits	206,839.4	6.25%	0.0	206,839.4	592,046.0
C. Medicare-Eligible Retiree Benefits	476,170.2	6.25%	(18,182.4)	457,987.8	0.0
D. Total Pension and Health Benefits	$ 1,419,071.2		$ (194,211.3)	$ 1,224,859.9	$ 1,149,692.2
2. Other:					
A. FECA	$ 7,596.1		$ 0.0	$ 7,596.1	$ 7,183.2
B. Voluntary Separation Incentive Programs	1,690.1	4.0%	(760.0)	930.1	763.3
C. DoD Education Benefits Fund	1,208.1	4.4%	(1,036.9)	171.2	134.8
	0.0		0.0	0.0	0.0
D. Total Other	$ 10,494.3		$ (1,796.9)	$ 8,697.4	$ 8,081.3
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	$ 1,429,565.5		$ (196,008.2)	$ 1,233,557.3	$ 1,157,773.5

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:
Actuarial Cost Method Used: See narrative below.
Assumptions: See narrative below.
Market Value of Investments in Market-based and Marketable Securities: See narrative below.

Fluctuations and Abnormalities

The unfunded actuarial liability for the Military Retirement Pensions increased $2,386.5 million, or .4 percent, from year-end FY 2002 to year-end FY 2003. Additional information about Military Retirement Pensions and the net pension expense is disclosed in the paragraph below entitled "Military Retirement."

The unfunded actuarial liability for the Military Retirement Health Benefits decreased $385,206.6 million, or 65.1 percent, from year-end FY 2002 to year-end FY 2003. This net decrease was caused by the creation of the Medicare-Eligible Health Care Fund (MERHCF) on October 1, 2002. The establishment of this new fund required the subsequent transfer of a $405,553.0 million actuarial liability from the Defense Health Program (DHP) to the MERHCF. In addition, there was an increase of $20,346.0 million in the overall liability for the DHP (after the $405,553.0 million transfer to the MERHCF) because of FY 2003 interest costs and normal costs, plus the gains in the actuarial liability due to changes in trend assumptions. Additional information is contained in the Military Retirement Health Benefits Actuarial Liability paragraph.

The unfunded actuarial liability for the Medicare-Eligible Retiree Benefits increased from zero to $457,987.8 million from year-end FY 2002 to FY 2003. Since the DoD MERHCF was established at the beginning of FY 2003 (October 1, 2002), this fund was not included in the FY 2002 financial statements. Additional details about this fund and the change in the actuarial liability are provided in the Military Retirement Health Benefits Actuarial Liability paragraph.

The unfunded actuarial liability for the Federal Employees Compensation Act increased $412.9 million, or 5.7 percent. Additional information about this program is provided in the FECA paragraph.

The unfunded actuarial liability for the Voluntary Separation Incentive Programs increased $166.8 million, or 21.9 percent. The increase is the combined result of an increase in the actuarial present value of the plan benefits and a decrease in the value of the assets available to pay benefits. Additional information is provided in the Voluntary Separation Incentive Programs paragraph.

The unfunded actuarial liability for the DoD Education Benefits Fund increased $36.4 million, or 27.0 percent. The increase is the combined result of an increase in the actuarial present value of the plan benefits and an increase in the value of the assets available to pay benefits. Additional information is discussed in the DoD Education Benefits Fund paragraph.

Military Retirement Health Benefits (MRHB) Actuarial Liability

For the fiscal year ending September 30, 2002, the unfunded actuarial liability for the Military Retiree Health Care program was $592,046.0 million. Chapter 56 of Title 10, United States Code created the Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (MERHCF) effective October 1, 2002. The purpose of the MERHCF is to accumulate funds to finance, on an actuarially sound basis, liabilities of the DoD under Uniformed Services Retiree Health Care Programs for Medicare-eligible beneficiaries.

Chapter 56 also created the DoD Medicare-Eligible Retiree Health Care Board of Actuaries with a charter to set methods and assumptions to be used for determining MERHCF's original unfunded liability and normal cost contributions. The Board determined the original unfunded liability of MERHCF and set a schedule over which to amortize the liability. Using approved methods, the DoD Office of the Actuary determined that the original unfunded liability of MERHCF, as of October 1, 2002, was $405,553.0 million. This amount includes the liability for Medicare-eligible members and former members of the DoD Uniformed Services who are entitled to retired or retainer pay, and their eligible dependents who are Medicare-eligible. The DoD Office of the Actuary did not include the liability for beneficiaries of the non-DoD Uniformed Services.

Creation of the MERHCF necessitated the transfer of the $405,553.0 million Medicare-Eligible Health Care actuarial liability to the MERHCF. The balance remaining represents the Defense Health Program (DHP) portion of the liability. The basis of the revised FY 2003 beginning balance of the MRHB actuarial liability is as follows:

(Amounts in millions)

FY 2002 ending balance of the total MRHB Actuarial Liability	$592,046.0
FY 2003 transfer of Medicare-Eligible Health Care liability to the MERHCF	405,553.0
Defense Health Program portion of the MRHB Liability FY 2003 beginning balance	$186,493.0

Change in Defense Health Program MHRB Actuarial Liability

(Amount in millions)

Actuarial Liability as of 9/30/02 (DoD pre-Medicare + DoD Medicare cost basis effect)	$ 186,493.0
Expected Normal Cost for FY03	6,457.6
Expected Benefit Payments for FY03	(6,185.3)
Interest Cost for FY03	11,664.2
Actuarial (gains)/losses due to changes in trend assumptions	1,435.8
Actuarial (gains)/losses due to other factors	6,974.1
Actuarial Liability as of 9/30/03 (DoD pre-Medicare + all uniformed services Medicare cost-basis effect)	$ 206,839.4

Actuarial Cost Method Used for DHP Actuarial Liability. Aggregate Entry-Age Normal

Assumptions in Calculation of DHP Liability:

Interest Rate: 6.25%

Medical Trend

Medicare Inpatient:	4.0% from FY02 to FY03, ultimate rate of 6.25% in 2027
Medicare Outpatient:	5.5% from FY02 to FY03, ultimate rate of 6.25% in 2027
Medicare Prescriptions (Direct Care):	10.08% from FY02 to FY03, ultimate rate of 6.25% in 2027
Medicare Prescriptions (Purchased Care):	15.54% from FY02 to FY03, ultimate rate of 6.25% in 2027
Non-Medicare Inpatient:	4.5% from FY02 to FY03, ultimate rate of 6.25% in 2027
Non-Medicare Outpatient:	9.7% from FY02 to FY03, ultimate rate of 6.25% in 2027
Non-Medicare Prescriptions:	13.9% from FY02 to FY03, ultimate rate of 6.25% in 2027

Other Information

The DHP liability includes pre-Medicare liabilities for the DoD, plus a cost-basis effect related to the direct care portion of Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2003, liability is:

	(Amount in millions)
DoD	$ 206,409.2
U.S. Coast Guard	$ 381.1
Public Health Service	$ 45.8
National Oceanic and Atmospheric Administration	$ 3.1

Liabilities in the MRHB liability are valued at a higher cost basis for direct care than they are in the corresponding liabilities reported for the MERHCF. Thus, the DHP liability, reflecting the difference between the MRHB and the MERHCF liabilities, includes both pre-Medicare liabilities for the DoD, plus a cost-basis effect related to Medicare liabilities for all Uniformed Services.

Actuarial gains/losses due to other factors include new population data, other actuarial experience being different from assumed, the cost basis effect for non-DoD Uniformed Services Medicare liabilities, and actuarial assumption changes other than the change in trend assumptions.

Change in MERHCF Actuarial Liability **(Amount in millions)**

Actuarial Liability as of 9/30/02 (DoD Medicare)	$405,553.0
Transferred Actuarial Liability as of 9/30/02 (non-DoD uniformed services Medicare)	$6,645.8
Actuarial Liability as of 9/30/02 (all uniformed services Medicare)	$412,198.8
Expected Normal Cost for FY03	$7,923.2
Expected Benefit Payments for FY03	($5,584.1)
Interest Cost for FY03	$25,834.4
Estimated actuarial (gains)/losses on non-DoD uniformed services liabilities	$2,347.3
Actuarial (gains)/losses due to other factors	$25,680.4
Actuarial (gains)/losses due to changes in trend assumptions	$7,770.2
Actuarial Liability as of 9/30/03 (all uniformed services Medicare)	$476,170.2

Actuarial Cost Method Used for MERHCF Liability: Aggregate Entry-Age Normal

Assumptions in Calculation of MERHCF Liability

Interest Rate: 6.25%

Medical Trend:
Medicare Inpatient: 4.0% from FY02 to FY03, ultimate rate of 6.25% in 2027.
Medicare Outpatient: 5.5% from FY02 to FY03, ultimate rate of 6.25% in 2027.
Medicare Prescriptions (Direct Care): 10.08% from FY02 to FY03, ultimate rate of 6.25% in 2027.
Medicare Prescriptions (Purchased Care): 15.54% from FY02 to FY03, ultimate rate of 6.25% in 2027.

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The approximate breakout of the September 30, 2003, liability ($ millions) is:

DoD	$466,537.4
Coast Guard	$8,613.2
Public Health Service	$954.2
NOAA	$65.5

FY 2003 Service contributions to the MERHCF ($ millions) were:

DoD	$8,001.6
Coast Guard	$172.7
Public Health Service	$25.2
NOAA	$1.2

MERHCF liabilities are valued at a lower cost basis for direct care than they are in the corresponding liabilities reported for the Military Retirement Health Benefits liability. Thus, the MERHCF liability is approximately $19.5 billion lower than the Medicare portion of the Military Retirement Health Benefits liability.

Estimated actuarial gains/losses on the non-DoD uniformed services liabilities reflect new assumptions in the calculation of their liabilities. Actuarial gains/losses due to other factors include new population data, other actuarial experience being different from assumed, and actuarial assumption changes other than the change in trend assumptions.

Assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience. Claims cost assumptions for direct care were based on actual experience; assumptions for purchased care were developed from industry-based cost estimates adjusted to approximate the military retired population.

Projected revenues into the Medicare Eligible Retiree Health Care Fund, authorized by Chapter 56 of Title 10, United States Code, come from three sources: interest earnings on Fund assets, monthly Uniformed Services contributions, and annual contributions from the Treasury Department. The monthly contributions are determined as a per-capita amount (approved by the DoD Medicare Eligible Retiree Health

Care Board of Actuaries) times end strength. The contribution from Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 2002, as well as the amortization of actuarial gains and losses that have arisen since then. The Board determines Treasury's contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year's results. For purposes of the Fund's financial reporting, this process is applied annually.

Military Retirement

The net pension expense for the actuarial accrued liability is developed in the table below:

Net Pension Expense for the Years Ended September 30

(Amounts in millions)

	2003	**2002**
A. Beginning of Year Accrued Liability	$726,915.4	$705,248.9
B. Normal Cost Liability	13,719.4	12,935.3
C. Plan Amendment Liability	880.3	5,563.5
D. Assumption Change Liability	(4,626.3)	(2,334.4)
E. Benefit Outlays	(35,716.8)	(35,187.8)
F. Interest on Pension Liability	44,755.2	43,393.2
G. Actuarial Loss (Gain)	(9,865.7)	(2,703.4)
H. End of Year Accrued Liability (A+B+C+D+E+F+G)	$736,061.5	$726,915.3
I. Net Change in Actuarial Liabilities (B+C+D+E+F+G)	$9,146.1	$21,666.4

Other Information

Each year the accrued liability is expected to increase with the normal cost, decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, (2) plan benefit changes, and (3) assumption changes, an increase of $22.758 billion in the accrued liability was expected during FY 2003.

The September 30, 2003, accrued liability includes changes due to (1) assumptions, (2) benefit changes, and (3) experience. The new assumptions include (a) permanent disability retiree death and other loss rates, (b) updates and enhancements to the survivor valuation model , (c) first-year retiree offset factors, and (d) a new long-term salary increase assumption of 3.75 percent.

The combined effect of the actuarial assumption changes is a decrease in the September 30, 2003, accrued liability of $4.626 billion shown on Line D. The change in retirement benefits for FY 2003 includes the reform of basic pay rates mandated by the FY 2003 DoD Authorization Act. The effect of the benefit change is an increase in the September 30, 2003, Accrued Liability of $0.880 billion, shown on Line C. The decrease in accrued liability due to the net experience gain of $9.866 billion, shown on line G, reflects the new population on which the September 30, 2002, roll-forward is based, as well as other economic experience being different than assumed.

Actuarial Cost Method Used: Aggregate entry-age normal method.

The Military Retirement System is a single-employer, defined benefit plan. Administrative costs of the Fund are not ascertainable. Projected revenues into the Fund, authorized by Public Law (PL) 98-94, come from three sources: monthly DoD contributions, annual unfunded liability payment from the U.S. Treasury, and interest earnings on Fund assets. The monthly DoD contributions are determined as a percentage (approved by the DoD Retirement Board of Actuaries) of basic pay. The unfunded liability payment from the U.S. Treasury is paid into the Fund at the beginning of each fiscal year, and represents the amortization of the unfunded liability for service performed prior to October 1, 1984, as well as the amortization of actuarial gains and losses that have arisen since then. The DoD Retirement Board of Actuaries determines U.S. Treasury's unfunded liability payment, and the Secretary of Defense directs the Secretary of Treasury to make the payment.

The long-term economic assumptions for the FY 2002 valuation were 6.25 percent interest, 3.0 percent Consumer Price Index, and 3.5 percent salary increase. At its annual meeting in September, 2003, the DoD Retirement Board of Actuaries decided to increase the long-term annual salary increase assumption to 3.75 percent for the September 30, 2003, valuation. For fiscal years 2003 and 2004, the inflation rates of 1.4 percent (actual) and 2.0 percent (estimated), and the salary increases of 4.1 percent (actual) and 3.7 percent (estimated) were used. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on actual experience.

Because of reporting deadlines, the current year actuarial present value of projected plan benefits is rolled forward, using accepted actuarial methods, from the prior year's valuation results as reported in the DoD Office of the Actuary's Valuation of the Military Retirement System. For purposes of the Fund's financial reporting, this process is applied annually.

Market Value of Investments in Market-Based and Marketable Securities: $198,003.7 million

Federal Employees Compensation Act (FECA)

Fluctuations and Abnormalities

The unfunded liability for FECA increased 5.7 percent from year-end FY 2002 to year-end FY 2003.

Assumptions

The actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the DoD at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined by using historical benefit payment patterns to predict the future payments. Cost-of-living adjustments and medical inflation factors are also included in the calculation of projected future benefits. Consistent with past practices, these projected annual benefit payments are then discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

Year 1	5.21%
Year 2	5.21%
Year 3 and thereafter	5.21%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost-of-living adjustments or COLAs) and medical inflation factors (consumer price index-medical, or CPIMs) were applied to the calculation of projected future benefits. These factors were also used in adjusting the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were critically analyzed to insure that the estimates were reliable. The analysis was primarily based on two tests: (1) a comparison of the percentage change in the liability amount by agency, to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability, to the actual payment of the beginning year, as calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Voluntary Separation Incentive Programs (VSI)

Actuarial Cost Method Used: See narrative on fluctuations.

Assumptions

The VSI Fund (recorded on the books of the U. S. Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities of the DoD incurred under this program. The VSI benefit is an annual annuity paid to a member who has separated under this program and is paid for a period of time equal to twice the member's years of service. These benefits are paid by the VSI Fund, which receives contributions from the Military Services' military personnel accounts. Contribution amounts are determined by the DoD Office of the Actuary in conjunction with the Under Secretary of Defense (Comptroller) (USD(C)), based on a comparison of liabilities to assets. Future contribution amounts for current VSI recipients will be determined by the Board of Actuaries. No future military personnel are scheduled to separate under this option.

Market Value of Investments in Market-Based and Marketable Securities: $804.6 million

Fluctuations and Abnormalities

The 22 percent increase in the VSI unfunded actuarial liability is the combined result of an increase in the actuarial present value of the plan benefits, and a decrease in the value of the assets available to pay benefits. Since the VSI program is discontinued as far as new applicants, each year the actuarial liability is expected to decrease with benefit outlays, and increase with the interest cost. In the absence of (1) actuarial gains and losses, and (2) assumption changes, a decrease of $68.1 million in the actuarial liability was expected during FY 2003. However, the September 30, 2003, actuarial liability includes changes due to (1) assumptions, and (2) experience. The new assumption is a new long-term rate of return on investments of 4 percent. The effect of the actuarial assumption change is an increase in the September 30, 2003, actuarial liability of $215.0 million. The decrease in actuarial liability due to the net experience gain of $2.5 million reflects the new population data on which the September 30, 2003, actuarial liability is based, as well as other economic experience being different than assumed.

DoD Education Benefits Fund

Actuarial Cost Method Used: See narrative on fluctuations.

Assumptions

The Education Benefits Fund was established by Public Law 98-525. The fund is designed to accumulate resources for the Educational Assistance programs promoting the recruitment and retention of members for the All-Volunteer Forces and the Total Force Concept of the Armed Forces. The fund is also designed to aid in the readjustment of Armed Forces service members to civilian life after they separate from military service.

Market Value of Investments in Market-Based and Marketable Securities: $1,077.5 million

Fluctuations and Abnormalities

The 27 percent increase in the DoD Education Benefits unfunded actuarial liability is the combined result of an increase in the actuarial present value of the plan benefits, and an increase in the value of the assets available to pay benefits. The modified estimate of the present value of benefits (PVB) for the DoD Education Benefits Fund in FY 2003 relative to what was reported in FY 2002 includes more complete experience and includes for the first time an estimate of $17.0 million for Category 3 benefits paid from the Fund. The PVB also went up because of a lower interest rate assumption (4.4 percent vs. 5.5 percent) and a benefit change whereby Chapter 1606 eligible personnel have 14 years (previously 10 years) to use the benefit. The resulting increases in the PVB were offset somewhat due to other changes in the rates and methodology. For the number reported as of September 30, 2003, there is an additional effect of approximately $15.0 (net) million due to an additional year of new entrants and calculating the present value of the stream of projected future benefits as of a year later.

Note Reference

For regulatory discussion on "Military Retirement Benefits and Other Employment Related Actuarial Liabilities," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1019.

Note 18. Unexpended Appropriations

As of September 30		2003		2002
(Amounts in millions)				
1. Unexpended Appropriations:				
A. Unobligated, Available	$	30,851.1	$	30,115.5
B. Unobligated, Unavailable		5,069.9		4,551.8
C. Unexpended Obligations		157,034.8		142,615.3
D. Total Unexpended Appropriations	$	192,955.8	$	177,282.6

2. Other Information Pertaining to Unexpended Appropriations:

Definitions

Unexpended appropriations are the amount of budget authority remaining for disbursement against current or future obligations.

Unobligated balances represent the cumulative amount of budgetary authority that has not been set aside to cover outstanding commitments and obligations. Unobligated balances are classified as available or unavailable. Unobligated balances associated with appropriations expiring at fiscal year end remain available only for obligation adjustments until the account is closed.

Unexpended obligations represent funds that have been committed for goods that have not been received or services that have not been performed.

Relevant Information for Comprehension:

Unexpended Obligations

Unexpended Obligations reported as a component of Unexpended Appropriations include both Undelivered Orders-Unpaid and Undelivered Orders-Paid only for direct appropriated funds. This amount is distinct from line 12, Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided, on the Statement of Financing. This line on the Statement of Financing includes the change during the fiscal year in Unexpended Obligations against budget authority from all Military Services.

Note 19.A	General Disclosures Related to the Statement of Net Cost

Disclosures Related to the Statement of Net Cost

Fluctuations

On the Department of Defense (DoD) Consolidated Statement of Net Cost (SoNC), intra-governmental earned revenue decreased by $2,347.8 million or 15.1 percent between year-end FY2002 and year-end FY2003, which was primarily due to amount of interest earned by the Military Retirement Trust. Interest on investments for this fund decreased from $12,398 million in FY 2002 to $9,998 million in FY 2003. Securities that were purchased with higher coupon rates were invested at lower coupon rates in FY 2003 resulting in less interest earned.

Gross Costs with the Public increased by $127,331.6 million between year-end FY 2002 and year-end FY2003. Affecting this increase was the implementation of the new accounting standard SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

Information Related to the Statement of Net Cost

Statement of Net Cost

The Consolidated SoNC in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

Reporting Entities

For General Funds, the amounts presented in the SoNC are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The Department of Defense generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, the Department's systems do not capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems, then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

For Working Capital Funds, while the Department's Working Capital Funds (WCFs) generally record transactions on an accrual basis as is required by generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the SoNC is primarily based on budgetary obligation, disbursements, or collection transactions, as well as information from non-financial feeder systems.

The Statement of Net Costs restates the fiscal year 2002 balances for the Special Operations Command and the U.S. Army Corps of Engineers using prior period adjustments. See note 20 for further details.

Note 19.B. Gross Cost and Earned Revenue by Budget Functional Classification

As of September 30	2003			2002
(Amounts in millions)				
Budget Functional Classification	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	$ 415,556.5	$ (14,527.6)	$ 401,028.9	$ 329,179.1
2. Water Resources by U.S. Army Corps of Engineers (301)	10,087.7	(779.7)	9,308.0	6,167.2
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	140.2	0.0	140.2	149.0
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	44,545.9	(9,998.4)	34,547.5	44,458.1
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	330.7	(45.3)	285.4	254.0
6. Medicare Eligible Retiree Health Care Fund (551)	67,375.7	(395.1)	66,980.6	0.0
7. Total	$ 538,036.7	$ (25,746.1)	$ 512,290.6	$ 380,207.4
8. Other Information				

Note 19.C.	Gross Cost to Generate Intra-governmental Revenue and Earned Revenue (Transactions with Other Federal—Non-DoD—Entities) by Budget Functional Classification

The Department's accounting systems do not capture cost data in a manner that enables the Department to determine if the cost was incurred to generate intragovernmental revenue. Therefore, the Department was unable to complete this note. The Department is in the process of upgrading its financial and feeder systems and will be addressing this issue. Additionally, the identification of intragovernmental revenue and expenses is a government-wide problem. The OMB and the Department of the Treasury have efforts underway to develop government-wide guidance to enable accurate reporting of intragovernmental transactions.

Note 19.D. Imputed Expenses

As of September 30 (Amounts in millions)	2003	2002
1. Civilian (e.g.,CSRS/FERS) Retirement	$ 1,717.2	$ 1,340.0
2. Civilian Health	1,948.4	1,864.7
3. Civilian Life Insurance	20.9	20.6
4. Military Retirement Pension	0.0	0.0
5. Military Retirement Health	0.0	0.0
6. Judgment Fund	180.4	294.7
7. Total Imputed Expenses	$ 3,866.9	$ 3,520.0

8. Other Information

Note 19.E. Benefit Program Expenses

As of September 30 (Amounts in millions)	2003	2002
1. Service Cost	$ 28,100.2	$ 13,128.0
2. Period Interest on the Benefit Liability	82,253.8	34,747.0
3. Prior (or past) Service Cost	880.3	(36,477.0)
4. Period Actuarial Gains or (Losses)	20,509.8	8,148.0
5. Gains/Losses Due to Changes in Medical Inflation Rate Assumption	9,206.0	2,080.0
6. Total Benefit Program Expense	$ 140,950.1	$ 21,626.0

7. Other Information

Note 19. F.	Exchange Revenue

Disclosures Related to the Exchange Revenue:

Definition:

Exchange Revenue arises when a Government entity provides goods and services to the public or to another Government entity for a price - “earned revenue.” Exchange revenue includes most user charges other than taxes, i.e., regulatory user charges.

Note Reference

For regulatory discussion on Exchange Revenue, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102120.

Note 19.G. Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

The cost of items purchased by foreign governments under the Foreign Military Sales (FMS) Program and provided directly to the foreign governments by contractors are not reported in the Statement of Net Cost. As of September 30, 2003, we estimate the amounts purchased by foreign governments under the FMS Program to be $13.0 billion.

Note 19.H.	Stewardship Assets

Disclosures Related to Stewardship Assets:

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current-year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the SoNC. Material yearly investment amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.

Note 19.I.	Intra-governmental Revenue and Expense

Disclosures Related to Intra-governmental Revenue and Expense:

Intragovernmental Revenue and Expenses.

The Department's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the Department was unable to reconcile intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

Note 19.J. Suborganization Program Costs

As of September 30	2003			2002
(Amounts in millions)	Subentity A	Subentity B	Subentity C	
1. Program A Costs:				
A. Intra-governmental Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
B. Non-Federal Costs:				
1. Transfer Payments	0.0	0.0	0.0	0.0
2. Administrative Costs	0.0	0.0	0.0	0.0
3. Other Costs	0.0	0.0	0.0	0.0
4. Program A Non-federal Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
C. Total Program A Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
2. Program B Costs:				
A. Intra-governmental Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
B. Non-Federal Costs:				
1. Transfer Payments	0.0	0.0	0.0	0.0
2. Administrative Costs	0.0	0.0	0.0	0.0
3. Other Costs	0.0	0.0	0.0	0.0
4. Program B Nonfederal Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
C. Total Program B Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
3. Program C Costs:				
A. Intra-governmental Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
B. Non-Federal Costs:				
1. Transfer Payments	0.0	0.0	0.0	0.0
2. Administrative Costs	0.0	0.0	0.0	0.0
3. Other Costs	0.0	0.0	0.0	0.0
4. Program C Nonfederal Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
C. Total Program C Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0

4. Program D Costs:				
A. Intra-governmental Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
B. Non-Federal Costs:				
1.Transfer Payments	0.0	0.0	0.0	0.0
2.Administrative Costs	0.0	0.0	0.0	0.0
3.Other Costs	0.0	0.0	0.0	0.0
4.Program D Non-federal Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0
C. Total Program D Costs	$ 0.0	$ 0.0	$ 0.0	$ 0.0

5. Other Information:

Programs and Major Appropriation Groups

The Department of Defense (DoD) identifies programs based on the nine major appropriation groups provided by the Congress. The Department is in the process of reviewing available data and attempting to develop a cost reporting methodology that fulfills the need for cost information required by SFFAS No. 4 to keep the financial statements from becoming overly voluminous.

Until cost-allocating processes and expanded intra-DoD eliminating capabilities are incorporated into the accounting processes, the usefulness of further sub-organization-reported (major command) net costs is limited. This limitation is the reason that no additional statements of sub-organization cost at lower levels are presented with these statements.

The DoD is unable to accumulate costs for major programs based on performance measures identified under requirements of the Government Performance and Results Act because current financial processes and systems do not capture and report this type of cost information. Until the processes and systems are upgraded, the DoD as a whole will break out programs by major appropriation groupings.

The SoNC format requires reporting program costs by costs incurred with intragovernmental and public entities. Although overall program costs are believed to be fairly stated, the cost allocations between intragovernmental and public entities that were based on available vendor type data may not be totally accurate.

Note Reference

For regulatory discussion on Sub-organization Program Costs, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102128.

Note 20. Disclosures Related to the Statement of Changes in Net Position

As of September 30	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
(Amounts in millions)				
1. Prior Period Adjustments Increases (Decreases) to Net Position				
Beginning Balance:				
A. Changes in Accounting Standards	$ 383,129.9	$ 0.0	$ (0.0)	$ 0.0
B. Errors and Omissions in Prior Year Accounting Reports	153.9	0.0	(63,388.8)	1,553.3
C. Other Prior Period Adjustments	0.0	0.0	1,628.8	0.0
D. Total Prior Period Adjustments	$ 383,283.8	$ 0.0	$ (61,760.0)	$ 1,553.3
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$ 1,717.2	$ 0.0	$ 1,340.1	$ 0.0
B. Civilian Health	1,948.4	0.0	1,864.7	0.0
C. Civilian Life Insurance	20.9	0.0	20.6	0.0
D. Military Retirement Pension	0.0	0.0	0.0	0.0
E. Military Retirement Health	0.0	0.0	0.0	0.0
F. Judgment Fund	180.4	0.0	294.6	0.0
G. Total Imputed Financing	$ 3,866.9	$ 0.0	$ 3,520.0	$ 0.0

3. Other Information:

Prior-Period Restatement of Balances

The US Special Operations Command (USSOCOM) reported a prior-period adjustment totaling $2.9 billion. This adjustment restated the General PP&E account for items not reported in previous fiscal years 1999 through 2002 and was made in accordance with Federal Accounting Standards Advisory Board SFFAS Number 21 and SFFAS Number 7. This adjustment is considered as an error and omission in prior year accounting reports.

The United States Army Corps of Engineers made a prior-period adjustment to eliminate $2.7 billion of construction in progress (CIP) for the portion related to cost-share projects. This adjustment restated the CIP account and the related allowance account based on a recommendation from the DoD Inspector General's Office. This adjustment is considered as an error and omission in prior year accounting reports.

The Balance Sheet, Statement of Net Costs, and Statement of Changes in Net Position reflect restated balances for these adjustments.

Prior-Period Adjustments

The Department of Defense recorded $383.3 billion in prior-period adjustments in FY 2003. These adjustments consist of the following:

An adjustment of $383.1 billion is related to changes in the Statement of Federal Financial Accounting Standards (SFFAS) Number 23. Effective October 1, 2002, the SFFAS Number 23, "Eliminating The Category National Defense Property, Plant, and Equipment," revised the accounting principles for reporting military equipment (previously referred to as National Defense Property, Plant, and Equipment (NDPP&E)). The standard renames NDPP&E to military equipment and classifies military equipment as general property, plant, and equipment (GPP&E). The standard also requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Implementation of the new accounting principles requires the adjustment of the October 1, 2002, General Property, Plant, and Equipment balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed. The adjustment was based on data provided by the Bureau of Economic Analysis, Department of Commerce.

The Defense Finance and Accounting Service made a $5.5 million prior period adjustment to record a fiscal year 2002 audit adjustment that had been made to the DFAS statements after publishing the DoD-wide statements. A prior period adjustment was recorded in fiscal year 2003 to include this change in the DoD-wide statements.

Air Force Working Capital Fund has a prior period adjustment of $55.1 million. This is an auditor directed adjustment.

Other Disclosures

Imputed Financing

The amounts remitted to the Office of Personnel Management (OPM) by and for employees covered by Civil Service Retirement System (CSRS), Federal Employees' Retirement System (FERS), Federal Employees' Health Benefits Program (FEHB) and the Federal Employees' Group Life Insurance Program (FEGLI) do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. OPM provides the cost factors to the Defense Finance and Accounting Service (DFAS) for computation of imputed financing cost. The DFAS provides the costs to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R)) for validation. Approved imputed costs are provided to the reporting components for inclusion in their financial statements.

In FY 2003, the imputed financing increased by $347.0 million or 10 percent. The majority of the change is attributed to increases in the employee benefits service cost factors with little or no increase in the employee and employer contribution cost factors. Additionally, DoD recognized FERS imputed financing costs for the first time. Prior to FY 2003, DoD paid 100 percent of FERS employees' benefits. However, in FY 2003, the service cost for FERS increased but the employee and employer contributions did not change. Therefore, DoD is recognizing the difference between the service cost factor for FERS and the employee and employer cost factors for FERS as imputed financing costs. Also, changes occurred in the annual gross base pay, which is used to calculate imputed financing costs.

Appropriations for Iraqi Freedom

Appropriations used (Line 4.D.) increased $96.0 billion.
Appropriation received (Line 4.A.) increased $111.0 billion.

Note 21.A. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2003	2002
(Amounts in millions)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 215,000.2	$ 183,920.1
2. Available Borrowing and Contract Authority at the End of the Period	21,150.6	21,098.5

3. Other Information:

Table Fluctuations

Line 1, Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period, in the table above, increased $31,080.1 million, or 16.9 percent.

In general, many line items on the Statement of Budgetary Resources changed substantially due to the increased appropriations for Iraqi Freedom. Obligations incurred increased $121 billion. Other reasons for this fluctuation include increased funding to support Operations Enduring Freedom and Noble Eagle; war-fighting readiness; force protection; procurement of helicopters; development of future combat systems; and war reserves.

The Other Defense Organizations – General Fund reported that differences exist between the SBR and the year-end SF-133 (line 2A and line 12). These differences are primarily attributable to inconsistencies in the ending balances on the FY 2002 FACTS-II data file and the beginning balances on the FY 2003 FACTS-II data file. This data file is used to create the SBR. Adjustments to the budgetary trial balance input as part of the FY 2003 audited financial statements process also caused differences between the two reports.

Other Information Related to the Statement of Budgetary Resources

Accounting Standard: U.S. Standard General Ledger

The Department of Defense has not fully implemented the U.S. Government Standard General Ledger in all operational accounting systems. Guidance from the Treasury Financial Manual, Part 2, Chapter 4000, FACTS-II, is used to populate the Department's Statement of Budgetary Resources. However, some of the Department's entities still use proprietary accounts to produce their budgetary accounting data. The Department's accounting systems neither provide nor capture data needed for obligations incurred and recoveries of prior-year obligations in accordance with OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," requirements. Although the Department of Defense developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined and may or may not be material.

Foreign Military Sales Trust Funds

Beginning in FY 2002, the Department of Defense treated Foreign Military Sales (FMS) Trust Funds as nonfederal and presented these amounts in the Balance Sheet and the Statement of Net Cost. Accounts receivables and collections related to FMS are recognized on the Statement of Budgetary Resources (SBR). Therefore, reconciling differences exist between the SBR and the Balance Sheet. The Office of the Under Secretary of Defense (Comptroller) is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.

Intra-entity Transactions

The SBR does not include intra-entity transactions because the statements are presented as combined and combining.

- Pursuant to section 303(2) of Public Law (PL) 107-296, functions of the National Bio-Weapons Defense Analysis Center of DoD, including related functions of the Secretary of Defense were transferred to the Department of Homeland Security (DHS). As a result, budgetary resources totaling $1,022.8 million were transferred from several DoD organizations to the DHS as of September 2003.

Schedule of Transfers to the Department of Homeland Security
($Millions)

Transferred From	**Type of Budget Resource**	**$ Amount**
Chemical Biological Defense Program – Defense Threat Reduction Agency (DTRA	Budget Authority	416.5
Defense Emergency Response Fund	Unobligated Balance	75.6
Iraqi Freedom Fund	Budget Authority	400.0
Defense Information Systems Agency (DISA)	Budget Authority	62.5
DISA	Unobligated Balance	44.3
DISA	Unliquidated Obligations	23.9
Total Budgetary Resources		1,022.8

- In August 2003, the Department of the Army transferred $23.0 million in funds to DTRA in support of DHS, Directorate of Science and Technology. The transfer was authorized pursuant to Title III of the Homeland Security Act of 2002, PL 107-296. The funds transferred from the Army to DTRA support the BioNet Defense Initiative (previously called the Biological Defense Initiative (BDI)). Obligations incurred for these funds as of September 30, 2003, totaled $1.2 million.

Apportionment Categories

OMB Bulletin No. 01-09, section 9.27, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B, and exempt from apportionment. This disclosure should agree with the aggregate of the related information as included in each reporting entity's SF 133, Report on Budget Execution and Budgetary Resources, and lines 8A and 8B in the SBR. Two reporting entities disclosed differences among four lines (8A, 8B, 9A, and 9B) on the SF 133 and SBR.

The Army General Fund reported that, for FY 2002 and 2003, its direct and reimbursable delivered orders on the SBR do not agree with lines 8A and 8B on the SF 133. Also, lines 9A and 9B on the SBR do not agree with the SF 133 because of the incorrect reporting by FACTS II of the status of funds for Basic Symbols 1096, Iraqi Relief and Restoration Fund; 5095, Wildlife Conservation; 5098, Restoration of Rocky Mountain Arsenal; 5286, National Science Center; 8063, Trust Fund for Walter Reed Army Medical Center; and 8927, Trust Fund for Army General Fund Gift Funds FACTS-II uses the Allotments - Realized Resources status for these basic symbols rather than the Unobligated Funds Not Subject to Apportionment status.

The specific direct and reimbursable obligations apportioned under the three required categories are displayed in the tables below:

Direct Obligations – Apportionment Categories

Reporting Entity	Category A ($Millions)	Category B ($Millions)	Exempt from Apportionment ($Millions)
Army General Fund	124,340	3,672	
Navy General Fund – see disclosure	124,498		
Air Force General Fund	73,188	50,177	11
Army Working Capital Fund	249		
Navy Working Capital Fund	0		
Air Force Working Capital Fund		24	
US Corps of Engineers	5,516		30
Military Retirement Fund		35,396	
Medicare Eligible Healthcare Fund	4,583		
Other Defense Organizations – Working Capital Funds	1,076		
Other Defense Organizations – General Fund	99,266	280	423

Reimbursable Obligations – Apportionment Categories

Reporting Entity	Category A ($Millions)	Category B ($Millions)	Exempt from Apportionment ($Millions)
Army General Fund	18,430		
Navy General Fund – see disclosure	8,080		
Air Force General Fund	5,244	2,976	11
Army Working Capital Fund	12,322		
Navy Working Capital Fund	27,264		
Air Force Working Capital Fund		16,976	
US Corps of Engineers	5,034		
Other Defense Organizations – Working Capital Fund	46,893		
Other Defense Organizations – General Fund – see disclosure	3,917		

Disclosures Relating to Apportionment Categories

The Navy General Fund reported that, due to system limitations, both types of its obligations cannot be categorized. Therefore, Navy's direct and reimbursable obligations are all reported in the above table as "category A." The Other Defense Organizations – General Fund reported that its systems cannot determine the different categories of reimbursable obligations. Therefore, these obligations are reported in the above table as "category A."

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law as well as those funds that are permanently not available are neither included on the "Spending Authority from Offsetting Collections" line on the Statement of Budgetary Resources nor included on the "Spending Authority for Offsetting Collections and Recoveries" line on the Statement of Financing.

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources include Undelivered Orders-Unpaid for both direct and reimbursable funds.

Note 21.B. Disclosures Related to Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts

As of September 30	September 2001	September 2002	September 2003	(Decrease)/Increase from 2002 to 2003
(Amounts in millions)				
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	$ 1,041.0	$ 858.0	$ 854.0	$ (4.0)
B. Negative Unliquidated Obligations	205.0	122.0	125.0	3.0
2. Total In-transit Disbursements, Net	$ 6,240.0	$ 4,550.0	$ 4,675.0	$ 125.0

3. Other Information Related to Problem Disbursements and In-transit Disbursement

The amounts disclosed in the above table do not represent the total DoD problem disbursement amounts. The Department has fiduciary responsibility for the Foreign Military Sales program (Treasury Index 11), but is not required to include this program in its Agency-wide statements and notes. In addition, there are other issues that are causing a variance between the amounts reported on the table above and those amounts included in DoD's monthly Problem Disbursement and In-transit Report. These variances are currently under investigation. The discussion below addresses the Department's total problem disbursement amounts.

For year-end FY 2003, the Department of Defense reported $854 million (absolute value) in Unmatched Disbursements (UMD), which is a decrease of $4 million since fourth quarter of FY 2002. A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

For year-end FY 2003, the Department reported $125 million (absolute value) in Negative Unliquidated Obligations (NULOs), which is an increase of $3 million since year-end FY 2002. A NULO occurs when a payment is made against a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These problem disbursements represent the absolute value of disbursements of Department of Defense funds that have been reported by a disbursing station to the Department of the Treasury, but have not yet been precisely matched against the specific source obligation that gave rise to the disbursements. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

For year-end FY 2003, the Department of Defense reported $4,675 million (net) for In-Transits, which is an increase of $125 million since year-end FY 2002. The In-Transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

The elimination of both problem disbursements and aged in-transits is one of the highest financial management priorities of the Under Secretary of Defense (Comptroller). The Defense Finance and Accounting Service has efforts underway to improve the systems and to resolve all previous problem disbursements and to process all in-transit disbursements.

4. Suspense/Budget Clearing Accounts,Net

Account	September 2001	September 2002	September 2003	(Decrease)/Increase
F3875	$ 92.5	$ 525.0	$ (628.8)	$ (1,153.8)
F3880	0.3	2.5	(6.0)	(8.5)
F3882	0.0	23.2	(21.6)	(44.8)
F3885	350.5	258.7	(399.5)	(658.2)
F3886	5.2	6.3	0.2	(6.1)
Total	$ 448.5	$ 815.7	$ (1,055.7)	$ (1,871.4)

5. Other Information Related to Suspense/Budget Clearing Accounts:

The Department of Defense has made a concerted effort to reduce balances in the suspense and budget clearing accounts disclosed on line 4 above. A description of the suspense and budget clearing accounts and their respective balances follows:

- The F3875, F3885, and F3886 suspense accounts represent the source of the transaction. Account F3875, which reported a negative balance of $103.5 million, represents the Disbursing Officer's (DO) suspense. Account F3885, which represents the Interfund/IPAC suspenses, reported a balance of $425.2 million Account F3886, with a balance of $0.2 million, represents the (payroll) Thrift Savings Plan suspense. These three suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

- The F3880 suspense account, which reported a negative balance of $6.0 million, represents the balance of Treasury checks that (1) have either been lost by the payee and need to be reissued, (2) have never cashed by the payee, or (3) have been cancelled by the Treasury and need to be transferred to the original appropriation.

- The F3882 suspense account, which reported a negative balance of $13.3 million, was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these same amounts in the military accounting systems in the following month.

On September 30 of each fiscal year, most of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to the proper appropriation accounts. On October 1 of the following fiscal year, the uncleared suspense/clearing account balances are reestablished.

<u>Note Reference</u>

See Note 2 – Nonentity and Entity Assets for further explanation on deposits, suspense, and budget clearing accounts.
See Note 3 – Fund Balance with Treasury for additional disclosures on deposits, suspense, and budget clearing accounts.

Note 22. Disclosures Related to the Statement of Financing

Disclosures Related to the Statement of Financing:

Fluctuations and/or Abnormalities

Transfers In/out Without Reimbursement decreased by $6.7 billion due to the transfer of a $6.6 billion liability from Other Defense Organizations to the Medicare-Eligible Retiree Health Care Fund, which was established in FY 2003. In addition, $56.7 million in assets were transferred to the Department of Interior from the U.S. Army Corps of Engineers.

Resources That Fund Expenses Recognized in Prior Periods increased (negative decrease) primarily due to a change in environmental liabilities. In FY 2002, the Army modified its cost estimating tool for transferred ranges and increased quality control of program requirements for closed ranges. This resulted in a $5.6 billion decrease in environmental liabilities in FY 2002. There was no comparative decrease in FY 2003.

Resources That Finance the Acquisition of Assets decreased by $63.9 billion from FY 2002 due to an increase in acquisitions. Increases in acquisitions appear as a negative amount on the Statement of Financing because budgetary expenditures for assets that are capitalized on the Balance Sheet are subtracted from total obligations in order to reconcile budgetary obligations with the net cost of operations. Increases in acquisitions were a result of support for Operating Enduring Freedom/Operation Iraqi Freedom. The acquisitions increased by $25.1 billion for the Army General Fund, $19.0 billion for Navy General Fund, $8.3 billion for the Air Force General Fund, and $1.0 billion for the Under Secretary of Defense for Acquisition, Technology and Logistics Working Capital Funds.

Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations increased by $6.6 billion from FY 2002. The increase was caused by the transfer of a $6.6 billion liability from Other Defense Organizations to the Medicare-Eligible Retiree Health Care Fund, which was established in FY 2003. Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations is primarily an offset to Transfers In/out Without Reimbursement.

Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods reports unfunded expenses that were incurred during FY 2003. The cumulative total of unfunded expenses from all fiscal years is reported as "Liabilities Not Covered by Budgetary Resources" in Note 11.

Other Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period consist primarily of actuarial future funded expenses. Actuarial future funded expenses, increased by $61.1 billion from year-end FY 2002 to

FY 2003. The increase resulted primarily from increased actuarial expenses for the DoD Medicare-Eligible Retiree Health Care Fund.

Depreciation and Amortization Expense increased by $48.0 billion from year-end FY 2002 to year-end FY 2003. The increase is due primarily to the reestablishment of Military Equipment as a capital asset.

Revaluation of Assets or Liabilities increased by $6.7 billion, primarily due to the correction of a mapping error of $3.4 billion for “Loss on Dispositions of Assets” for the Navy General Fund, and $1.6 billion in Navy OM&S consumed. Navy displays this as Revaluation of Assets or Liabilities, while Air Force and Army display consumption (correctly) as Other Components of Net Cost That Will Not Require or Generate Resources in Future Periods. In addition, Army posted a $1.5 billion adjustment as Revaluation of Assets or Liabilities to balance its Statement of Financing in FY 2002, and did not do so this year.

The $17.3 billion decrease in Other Components of Net Cost That Will Not Require or Generate Resources in Future Periods is primarily attributable to the reporting of trust fund undistributed revenue from Offsetting Receipts to Other Components of Net Cost That Will Not Require or Generate Resources in Future Periods ($23.7 billion) and the U.S. Army Corps of Engineers (USACE) $2.6 billion restatement of FY 2002 Net Cost. Trust fund undistributed revenue was correctly reported as part of Offsetting Receipts in FY 2002 and the Treasury Department changed the formatting of the Statement of Financing for FY 2003. The USACE made an adjustment to remove Construction In Process for cost share projects from the its books per audit recommendation. The decrease was partly offset by increases in Operating Materials and Supplies consumed by Air Force and Army due to support for Operation Enduring Freedom and Operation Iraqi Freedom.

Other Disclosures

The objective of the Statement of Financing is to reconcile the difference between budgetary obligations and the net cost of operations reported. The OMB Bulletin 01-09 requires the SOF to be presented on a consolidated basis. The Department is unable to perform the required intragovernmental eliminations to report the line items on a consolidated basis. Accordingly, the Statement of Financing is presented as combined statement.

Due to the Department’s financial system limitations, budgetary data is not in agreement with proprietary expenses and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency. To bring the Statement of Financing into balance with the Statement of Net Cost, the following adjustments were made:

• Resources That Finance the Acquisition of Assets	$10,629.5 million
• Other Components Not Requiring of Generating Resources	$1,839.4 million
• Statement of Net Cost *	$89.7 million

* The Army General Fund adjusted the Statement of Net Cost instead of the Statement of Financing.

Note 23.	Disclosures Related to the Statement of Custodial Activity

Disclosures Related to the Statement of Custodial Activity:

A Statement of Custodial Activity is prepared by reporting entities whose primary mission is collecting taxes or other revenues, particularly sovereign revenues that are intended to finance the entire government's operations, or at least the programs of other entities, rather than their own activities.

Fluctuations and/or Abnormalities

Iraqi Seized Assets were first reported in FY 2003 attributing to the Statement of Custodial Activity's variances between FY 2002 and FY 2003.

Other Information Related to the Statement of Custodial Activity

During Operation Iraqi Freedom, the U.S. Government seized assets from the former Iraqi State or regime which is being used to assist the Iraqi people and support the reconstruction of Iraq. As of September 30, 2003, the following table depicts the custodial activity the Army has conducted pertaining to these seized assets (cash).

SOURCE OF COLLECTIONS	(Amounts in millions)	
Seized Iraqi Cash	**$**	**808.9**
DISPOSITION OF COLLECTIONS		
Iraqi Salaries	$	30.2
Repair/Reconstruction/Humanitarian Assistance	$	170.6
Iraqi Ministry Operations (Ministry of Finance, Defense, etc.)	$	254.6
Fuel/Supplies	$	75.4
Total Disbursed on behalf of the Iraqi People	$	530.8
Retained for Future Support of the Iraqi People	$	278.1
Total Disposition of Collections	**$**	**808.9**
NET CUSTODIAL COLLECTION ACTIVITY	**$**	**0**

Foreign Military Sales Trust Fund

Under authority of the Arms Export and Control Act, the Foreign Military Sales Trust Fund (FMSTF) receives collections from foreign governments that are dedicated specifically to FMS purchases. Funds collected into the Trust Fund are in advance of the performance of services or sale of articles. These advance collections constitute a fiduciary relationship with the countries and are outside of the Federal budget. Current-year collections into the FMSTF for FY 2003 equal $9,971.6 million and disbursed on the behalf of foreign governments and international organizations equals $10,118.7 million.

In accordance with the DoD Acting Chief Financial Officer's memorandum of August 31, 1992, the FMSTF does not recognize nor report revenue, with the exception of cost clearing accounts which are reflected in all other components of the Audited Financial Statements except the Statement of Custodial Activity. Since various DoD components actually perform the services and sell the articles, recognition of revenue and expense occurs in the financial statements of the applicable DoD components.

Other Disclosures

For Regulatory Disclosure related to the Statement of Custodial Activity see, Department of Defense Financial Management Regulations, Volume 6B, Chapter 10, Paragraph 1025.

Note 24.A. Other Disclosures

1. ENTITY AS LESSEE-Operating Leases

As of September 30	2003				2002
(Amounts in millions)					
B. Future Payments Due: Fiscal Year	Land and Buildings	Equipment	Other	Total	Total
2004	$ 94.1	$ 1.3	$ 1.2	$ 96.6	$ 71.6
2005	94.7	0.7	0.1	95.5	68.1
2006	96.9	0.6	0.0	97.5	67.7
2007	98.3	0.2	0.0	98.5	67.7
2008	97.2	0.2	0.0	97.4	62.7
After 5 Years	73.5	0.0	0.0	73.5	77.6
Total Future Lease Payments Due	$ 554.7	$ 3.0	$ 1.3	$ 559.0	$ 415.4

Fluctuations and Abnormalities:

There was an increase of $143.5 million in Total Future Lease Payments Due from year-end FY 2002 to year-end FY 2003. The majority of this variance is due to a new operating lease of $124.8 million for office facilities for the Defense Contract Management Agency.

Definitions

- Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.
- Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

Land and Buildings Leases

- "Office Space" is the largest component. These costs were gathered from existing leases, General Service Administration (GSA) bills, and Inter-service Support Agreements. Future year projections used the Consumer Price Index, rather than the DoD inflation factor. The CPI impacts increases to the leases, especially those at commercial lease sites.

Equipment Leases

- The majority of these leases are for equipment with a variety of lease Terms. Renewal of the leases is not expected upon expiration.

Other Leases

- Other Information – This includes any other operating leases. Leases are generally 1-year leases. The Department expects to continue to reduce the level of owned assets while increasing the number of operational leases. The Department will strive to displace commercial leases in favor of GSA leases because GSA leases are typically more economical.

Note 24.B. Other Disclosures

Other Disclosures:

N/A

Consolidating and Combining Financial Statements

Department of Defense
Agency Wide
CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)			
a. Entity	$ 54,695.9	$ 78,191.7	$ 59,714.0
b. Non-Entity Seized Iraqi Cash	278.1	0.0	0.0
c. Non-Entity-Other	61.4	223.2	52.5
2. Investments (Note 4)	1.2	9.8	0.7
3. Accounts Receivable (Note 5)	523.4	496.9	541.5
4. Other Assets (Note 6)	83.5	187.9	339.1
5. Total Intragovernmental Assets	$ 55,643.5	$ 79,109.5	$ 60,647.8
B. Cash and Other Monetary Assets (Note 7)	$ 954.4	$ 283.0	$ 147.9
C. Accounts Receivable (Note 5)	514.6	3,382.1	772.5
D. Loans Receivable (Note 8)	0.0	0.0	0.0
E. Inventory and Related Property (Note 9)	32,676.7	53,611.6	51,815.8
F. General Property, Plant and Equipment (Note 10)	115,337.9	158,407.4	112,786.1
G. Investments (Note 4)	0.0	0.0	0.0
H. Other Assets (Note 6)	3,569.0	6,180.6	9,912.2
2. TOTAL ASSETS	$ 208,696.1	$ 300,974.2	$ 236,082.3

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CONSOLIDATING BALANCE SHEET
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	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)			
a. Entity	$ 1,548.5	$ 1,827.6	$ 732.8
b. Non-Entity Seized Iraqi Cash	0.0	0.0	0.0
c. Non-Entity-Other	0.0	0.0	0.0
2. Investments (Note 4)	0.0	0.0	0.0
3. Accounts Receivable (Note 5)	411.2	582.8	605.1
4. Other Assets (Note 6)	0.3	10.4	0.0
5. Total Intragovernmental Assets	$ 1,960.0	$ 2,420.8	$ 1,337.9
B. Cash and Other Monetary Assets (Note 7)	$ 0.0	$ 0.0	$ 0.0
C. Accounts Receivable (Note 5)	31.2	111.8	167.8
D. Loans Receivable (Note 8)	0.0	0.0	0.0
E. Inventory and Related Property (Note 9)	12,131.8	18,256.1	11,154.5
F. General Property, Plant and Equipment (Note 10)	926.8	4,323.9	1,329.6
G. Investments (Note 4)	0.0	0.0	0.0
H. Other Assets (Note 6)	269.9	868.8	380.4
2. TOTAL ASSETS	$ 15,319.7	$ 25,981.4	$ 14,370.2

Department of Defense
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CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)			
a. Entity	$ 25.2	$ 2,588.9	$ 48,841.3
b. Non-Entity Seized Iraqi Cash	0.0	0.0	0.0
c. Non-Entity-Other	0.0	6.9	(104.2)
2. Investments (Note 4)	182,568.8	2,478.5	1,872.0
3. Accounts Receivable (Note 5)	0.1	423.6	486.2
4. Other Assets (Note 6)	0.0	0.0	217.2
5. Total Intragovernmental Assets	$ 182,594.1	$ 5,497.9	$ 51,312.5
B. Cash and Other Monetary Assets (Note 7)	$ 0.0	$ 1.3	$ 26.6
C. Accounts Receivable (Note 5)	14.7	1,935.6	7.0
D. Loans Receivable (Note 8)	0.0	0.0	64.0
E. Inventory and Related Property (Note 9)	0.0	62.6	1,913.3
F. General Property, Plant and Equipment (Note 10)	0.0	30,909.1	18,226.5
G. Investments (Note 4)	0.0	0.0	217.8
H. Other Assets (Note 6)	0.0	0.0	310.6
2. TOTAL ASSETS	$ 182,608.8	$ 38,406.5	$ 72,078.3

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CONSOLIDATING BALANCE SHEET
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	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	Combined Total
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)			
a. Entity	$ 3,373.2	$ 5.0	$ 251,544.1
b. Non-Entity Seized Iraqi Cash	0.0	0.0	278.1
c. Non-Entity-Other	0.0	0.0	239.8
2. Investments (Note 4)	0.0	18,445.2	205,376.2
3. Accounts Receivable (Note 5)	2,793.7	0.0	6,864.5
4. Other Assets (Note 6)	0.7	0.0	839.1
5. Total Intragovernmental Assets	$ 6,167.6	$ 18,450.2	$ 465,141.8
B. Cash and Other Monetary Assets (Note 7)	$ 121.7	$ 0.0	$ 1,534.9
C. Accounts Receivable (Note 5)	362.6	0.0	7,299.9
D. Loans Receivable (Note 8)	0.0	0.0	64.0
E. Inventory and Related Property (Note 9)	12,551.7	0.0	194,174.1
F. General Property, Plant and Equipment (Note 10)	4,061.6	0.0	446,308.9
G. Investments (Note 4)	0.0	0.0	217.8
H. Other Assets (Note 6)	238.1	0.0	21,729.6
2. TOTAL ASSETS	$ 23,503.3	$ 18,450.2	$ 1,136,471.0

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CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	Elimination	2003 Consolidated	2002 Consolidated
1. ASSETS (Note 2)			
A. Intragovernmental:			
1. Fund Balance with Treasury (Note 3)			
a. Entity	$ 0.0	$ 251,544.1	$ 205,278.8
b. Non-Entity Seized Iraqi Cash	0.0	278.1	0.0
c. Non-Entity-Other	0.0	239.8	537.4
2. Investments (Note 4)	0.2	205,376.0	180,804.5
3. Accounts Receivable (Note 5)	5,797.9	1,066.6	1,121.9
4. Other Assets (Note 6)	734.1	105.0	0.1
5. Total Intragovernmental Assets	$ 6,532.2	$ 458,609.6	$ 387,742.7
B. Cash and Other Monetary Assets (Note 7)	$ 0.0	$ 1,534.9	$ 742.7
C. Accounts Receivable (Note 5)	0.0	7,299.9	6,341.9
D. Loans Receivable (Note 8)	0.0	64.0	44.2
E. Inventory and Related Property (Note 9)	0.0	194,174.1	146,198.6
F. General Property, Plant and Equipment (Note 10)	0.0	446,308.9	122,569.7
G. Investments (Note 4)	0.0	217.8	0.0
H. Other Assets (Note 6)	0.0	21,729.6	18,245.8
2. TOTAL ASSETS	$ 6,532.2	$ 1,129,938.8	$ 681,885.6

Department of Defense
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CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$ 1,085.1	$ 1,035.0	$ 1,413.9
2. Debt (Note 13)	0.0	0.0	0.0
3. Environmental Liabilities (Note 14)	0.0	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	1,670.3	3,859.9	1,623.9
5. Total Intragovernmental Liabilities	$ 2,755.4	$ 4,894.9	$ 3,037.8
B. Accounts Payable (Note 12)	$ 9,089.1	$ 1,742.5	$ 7,080.9
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,761.3	1,590.0	1,262.3
D. Environmental Liabilities (Note 14)	37,395.4	15,614.4	8,110.4
E. Loan Guarantee Liability (Note 8)	1.3	0.0	0.0
F. Other Liabilities (Note 15 & Note 16)	9,387.3	3,786.0	4,520.9
G. Debt Held by Public (Note 13)	0.0	0.0	0.0
4. TOTAL LIABILITIES	$ 60,389.8	$ 27,627.8	$ 24,012.3
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$ 47,674.7	$ 50,781.2	$ 50,742.3
B. Cumulative Results of Operations	100,631.6	222,565.2	161,327.7
6. TOTAL NET POSITION	$ 148,306.3	$ 273,346.4	$ 212,070.0
7. TOTAL LIABILITIES AND NET POSITION	$ 208,696.1	$ 300,974.2	$ 236,082.3

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CONSOLIDATING BALANCE SHEET
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($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$ 435.4	$ 313.7	$ 231.7
2. Debt (Note 13)	0.0	615.6	0.0
3. Environmental Liabilities (Note 14)	0.0	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	94.5	289.3	345.4
5. Total Intragovernmental Liabilities	$ 529.9	$ 1,218.6	$ 577.1
B. Accounts Payable (Note 12)	$ 342.4	$ 2,102.9	$ 89.0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	320.7	1,409.9	275.1
D. Environmental Liabilities (Note 14)	0.0	0.0	0.0
E. Loan Guarantee Liability (Note 8)	0.0	0.0	0.0
F. Other Liabilities (Note 15 & Note 16)	231.0	3,113.2	1,891.9
G. Debt Held by Public (Note 13)	0.0	0.0	0.0
4. TOTAL LIABILITIES	$ 1,424.0	$ 7,844.6	$ 2,833.1
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$ 12.0	$ 0.0	$ 0.0
B. Cumulative Results of Operations	13,883.7	18,136.8	11,537.1
6. TOTAL NET POSITION	$ 13,895.7	$ 18,136.8	$ 11,537.1
7. TOTAL LIABILITIES AND NET POSITION	$ 15,319.7	$ 25,981.4	$ 14,370.2

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CONSOLIDATING BALANCE SHEET
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($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$ 0.0	$ 92.8	$ 894.9
2. Debt (Note 13)	0.0	17.4	63.9
3. Environmental Liabilities (Note 14)	0.0	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	0.7	2,096.5	184.4
5. Total Intragovernmental Liabilities	$ 0.7	$ 2,206.7	$ 1,143.2
B. Accounts Payable (Note 12)	$ 0.0	$ 568.1	$ 2,648.0
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	736,061.6	0.0	210,116.2
D. Environmental Liabilities (Note 14)	0.0	0.0	301.6
E. Loan Guarantee Liability (Note 8)	0.0	0.0	24.6
F. Other Liabilities (Note 15 & Note 16)	2,963.2	705.4	1,576.2
G. Debt Held by Public (Note 13)	0.0	0.0	0.0
4. TOTAL LIABILITIES	$ 739,025.5	$ 3,480.2	$ 215,809.8
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$ 0.0	$ 636.8	$ 43,245.7
B. Cumulative Results of Operations	(556,416.7)	34,289.5	(186,977.2)
6. TOTAL NET POSITION	$ (556,416.7)	$ 34,926.3	$ (143,731.5)
7. TOTAL LIABILITIES AND NET POSITION	$ 182,608.8	$ 38,406.5	$ 72,078.3

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CONSOLIDATING BALANCE SHEET
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($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	Combined Total
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$ 387.9	$ (0.1)	$ 5,890.3
2. Debt (Note 13)	1.3	0.0	698.2
3. Environmental Liabilities (Note 14)	0.0	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	317.4	0.0	10,482.3
5. Total Intragovernmental Liabilities	$ 706.6	$ (0.1)	$ 17,070.8
B. Accounts Payable (Note 12)	$ 4,094.9	$ 106.0	$ 27,863.8
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	598.1	476,170.3	1,429,565.5
D. Environmental Liabilities (Note 14)	68.8	0.0	61,490.6
E. Loan Guarantee Liability (Note 8)	0.0	0.0	25.9
F. Other Liabilities (Note 15 & Note 16)	679.3	254.9	29,109.3
G. Debt Held by Public (Note 13)	0.0	0.0	0.0
4. TOTAL LIABILITIES	$ 6,147.7	$ 476,531.1	$ 1,565,125.9
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$ (136.9)	$ 0.0	$ 192,955.8
B. Cumulative Results of Operations	17,492.5	(458,080.9)	(621,610.7)
6. TOTAL NET POSITION	$ 17,355.6	$ (458,080.9)	$ (428,654.9)
7. TOTAL LIABILITIES AND NET POSITION	$ 23,503.3	$ 18,450.2	$ 1,136,471.0

Department of Defense
Agency Wide
CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
($ in Millions)

	Elimination	2003 Consolidated	2002 Consolidated
3. LIABILITIES (Note 11)			
A. Intragovernmental:			
1. Accounts Payable (Note 12)	$ 5,789.0	$ 101.3	$ 85.8
2. Debt (Note 13)	0.0	698.2	874.3
3. Environmental Liabilities (Note 14)	0.0	0.0	0.0
4. Other Liabilities (Note 15 & Note 16)	743.2	9,739.1	8,213.6
5. Total Intragovernmental Liabilities	$ 6,532.2	$ 10,538.6	$ 9,173.7
B. Accounts Payable (Note 12)	$ 0.0	$ 27,863.8	$ 24,182.4
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0.0	1,429,565.5	1,328,826.5
D. Environmental Liabilities (Note 14)	0.0	61,490.6	59,353.1
E. Loan Guarantee Liability (Note 8)	0.0	25.9	10.8
F. Other Liabilities (Note 15 & Note 16)	0.0	29,109.3	29,795.3
G. Debt Held by Public (Note 13)	0.0	0.0	0.0
4. TOTAL LIABILITIES	$ 6,532.2	$ 1,558,593.7	$ 1,451,341.8
5. NET POSITION			
A. Unexpended Appropriations (Note 18)	$ 0.0	$ 192,955.8	$ 177,282.6
B. Cumulative Results of Operations	0.0	(621,610.7)	(946,738.8)
6. TOTAL NET POSITION	$ 0.0	$ (428,654.9)	$ (769,456.2)
7. TOTAL LIABILITIES AND NET POSITION	$ 6,532.2	$ 1,129,938.8	$ 681,885.6

Department of Defense
Agency Wide
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
Program Costs			
A. Military Personnel			
Intragovernmental Gross Costs	$ 9,294.7	$ 12,135.6	$ 720.4
(Less: Intragovernmental Earned Revenue)	(641.6)	(69.1)	(342.4)
Intragovernmental Net Costs	$ 8,653.1	$ 12,066.5	$ 378.0
Gross Costs With the Public	35,425.7	24,509.8	28,348.9
(Less: Earned Revenue From the Public)	(25.5)	(281.5)	(147.3)
Net Costs With the Public	$ 35,400.2	$ 24,228.3	$ 28,201.6
Total Net Cost	$ 44,053.3	$ 36,294.8	$ 28,579.6
B. Operation and Maintenance			
Intragovernmental Gross Costs	$ 6,231.1	$ 16,783.9	$ 15,259.7
(Less: Intragovernmental Earned Revenue)	(7,248.0)	(2,605.0)	(3,731.0)
Intragovernmental Net Costs	$ (1,016.9)	$ 14,178.9	$ 11,528.7
Gross Costs With the Public	48,460.4	28,690.5	27,571.6
(Less: Earned Revenue From the Public)	(600.1)	(1,036.7)	(525.2)
Net Costs With the Public	$ 47,860.3	$ 27,653.8	$ 27,046.4
Total Net Cost	$ 46,843.4	$ 41,832.7	$ 38,575.1
C. Procurement			
Intragovernmental Gross Costs	$ (1,424.4)	$ 3,966.8	$ 2.7
(Less: Intragovernmental Earned Revenue)	(661.9)	(886.6)	(214.8)
Intragovernmental Net Costs	$ (2,086.3)	$ 3,080.2	$ (212.1)
Gross Costs With the Public	7,133.2	14,507.1	35,414.0
(Less: Earned Revenue From the Public)	(57.5)	(310.7)	(13.2)
Net Costs With the Public	$ 7,075.7	$ 14,196.4	$ 35,400.8
Total Net Cost	$ 4,989.4	$ 17,276.6	$ 35,188.7

Department of Defense

Agency Wide

CONSOLIDATING STATEMENT OF NET COST

For the periods ended September 30, 2003 and 2002

($ in Millions)

	Other Defense Organizations General Funds	Combined Total	Elimination
Program Costs			
A. Military Personnel			
Intragovernmental Gross Costs		$ 22,150.7	$ 0.0
(Less: Intragovernmental Earned Revenue)		(1,053.1)	0.0
Intragovernmental Net Costs		$ 21,097.6	$ 0.0
Gross Costs With the Public		88,284.4	0.0
(Less: Earned Revenue From the Public)		(454.3)	0.0
Net Costs With the Public		$ 87,830.1	$ 0.0
Total Net Cost		$ 108,927.7	$ 0.0
B. Operation and Maintenance			
Intragovernmental Gross Costs	$ 12,627.8	$ 50,902.5	$ 4,705.2
(Less: Intragovernmental Earned Revenue)	(2,037.1)	(15,621.1)	(1,052.6)
Intragovernmental Net Costs	$ 10,590.7	$ 35,281.4	$ 3,652.6
Gross Costs With the Public	38,627.0	143,349.5	0.0
(Less: Earned Revenue From the Public)	(288.4)	(2,450.4)	0.0
Net Costs With the Public	$ 38,338.6	$ 140,899.1	$ 0.0
Total Net Cost	$ 48,929.3	$ 176,180.5	$ 3,652.6
C. Procurement			
Intragovernmental Gross Costs	$ 561.3	$ 3,106.4	$ 0.0
(Less: Intragovernmental Earned Revenue)	(12.3)	(1,775.6)	0.0
Intragovernmental Net Costs	$ 549.0	$ 1,330.8	$ 0.0
Gross Costs With the Public	1,980.5	59,034.8	0.0
(Less: Earned Revenue From the Public)	1.1	(380.3)	0.0
Net Costs With the Public	$ 1,981.6	$ 58,654.5	$ 0.0
Total Net Cost	$ 2,530.6	$ 59,985.3	$ 0.0

Department of Defense
Agency Wide
CONSOLIDATING STATEMENT OF NET COST
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2003 Consolidated	2002 Consolidated
Program Costs		
A. Military Personnel		
Intragovernmental Gross Costs	$ 22,150.7	$ (0.2)
(Less: Intragovernmental Earned Revenue)	(1,053.1)	(208.0)
Intragovernmental Net Costs	$ 21,097.6	$ (208.2)
Gross Costs With the Public	88,284.4	72,484.4
(Less: Earned Revenue From the Public)	(454.3)	(155.6)
Net Costs With the Public	$ 87,830.1	$ 72,328.8
Total Net Cost	$ 108,927.7	$ 72,120.6
B. Operation and Maintenance		
Intragovernmental Gross Costs	$ 46,197.3	$ 6,851.3
(Less: Intragovernmental Earned Revenue)	(14,568.5)	(855.2)
Intragovernmental Net Costs	$ 31,628.8	$ 5,996.2
Gross Costs With the Public	143,349.5	88,730.0
(Less: Earned Revenue From the Public)	(2,450.4)	(2,971.2)
Net Costs With the Public	$ 140,899.1	$ 85,758.8
Total Net Cost	$ 172,527.9	$ 91,755.0
C. Procurement		
Intragovernmental Gross Costs	$ 3,106.4	$ 0.7
(Less: Intragovernmental Earned Revenue)	(1,775.6)	(37.1)
Intragovernmental Net Costs	$ 1,330.8	$ (36.5)
Gross Costs With the Public	59,034.8	50,736.1
(Less: Earned Revenue From the Public)	(380.3)	(557.1)
Net Costs With the Public	$ 58,654.5	$ 50,179.0
Total Net Cost	$ 59,985.3	$ 50,142.5

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	Army General Fund	Navy General Fund	Air Force General Fund
D. Research, Development, Test & Evaluation			
Intragovernmental Gross Costs	$ 2,076.6	$ 993.9	$ 976.1
(Less: Intragovernmental Earned Revenue)	(2,524.6)	(237.5)	(2,356.1)
Intragovernmental Net Costs	$ (448.0)	$ 756.4	$ (1,380.0)
Gross Costs With the Public	7,737.9	11,418.6	19,274.0
(Less: Earned Revenue From the Public)	(76.9)	(4.1)	(138.2)
Net Costs With the Public	$ 7,661.0	$ 11,414.5	$ 19,135.8
Total Net Cost	$ 7,213.0	$ 12,170.9	$ 17,755.8
E. Military Construction/Family Housing			
Intragovernmental Gross Costs	$ 3,527.8	$ 204.4	$ 146.5
(Less: Intragovernmental Earned Revenue)	(2,117.7)	(124.4)	0.0
Intragovernmental Net Costs	$ 1,410.1	$ 80.0	$ 146.5
Gross Costs With the Public	301.5	1,370.5	1,240.9
(Less: Earned Revenue From the Public)	(181.7)	(369.9)	0.0
Net Costs With the Public	$ 119.8	$ 1,000.6	$ 1,240.9
Total Net Cost	$ 1,529.9	$ 1,080.6	$ 1,387.4
F. Military Retirement Fund			
Intragovernmental Gross Costs			
(Less: Intragovernmental Earned Revenue)			
Intragovernmental Net Costs			
Gross Costs With the Public			
(Less: Earned Revenue From the Public)			
Net Costs With the Public			
Total Net Cost			

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	Military Retirement Fund	Other Defense Organizations General Funds	DoD Medicare-Eligible Retiree Health Care Fund
D. Research, Development, Test & Evaluation			
Intragovernmental Gross Costs		$ 2,766.5	
(Less: Intragovernmental Earned Revenue)		(489.6)	
Intragovernmental Net Costs		$ 2,276.9	
Gross Costs With the Public		11,645.6	
(Less: Earned Revenue From the Public)		38.6	
Net Costs With the Public		$ 11,684.2	
Total Net Cost		$ 13,961.1	
E. Military Construction/Family Housing			
Intragovernmental Gross Costs		$ 191.0	
(Less: Intragovernmental Earned Revenue)		(0.2)	
Intragovernmental Net Costs		$ 190.8	
Gross Costs With the Public		810.9	
(Less: Earned Revenue From the Public)		0.0	
Net Costs With the Public		$ 810.9	
Total Net Cost		$ 1,001.7	
F. Military Retirement Fund			
Intragovernmental Gross Costs	$ 0.0		$ 1,272.1
(Less: Intragovernmental Earned Revenue)	(41,645.9)		(22,765.6)
Intragovernmental Net Costs	$ (41,645.9)		$ (21,493.5)
Gross Costs With the Public	44,545.9		67,375.7
(Less: Earned Revenue From the Public)	0.0		0.0
Net Costs With the Public	$ 44,545.9		$ 67,375.7
Total Net Cost	$ 2,900.0		$ 45,882.2

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	Combined Total	Elimination	2003 Consolidated
D. Research, Development, Test & Evaluation			
Intragovernmental Gross Costs	$ 6,813.1	$ 0.0	$ 6,813.1
(Less: Intragovernmental Earned Revenue)	(5,607.8)	0.0	(5,607.8)
Intragovernmental Net Costs	$ 1,205.3	$ 0.0	$ 1,205.3
Gross Costs With the Public	50,076.1	0.0	50,076.1
(Less: Earned Revenue From the Public)	(180.6)	0.0	(180.6)
Net Costs With the Public	$ 49,895.5	$ 0.0	$ 49,895.5
Total Net Cost	$ 51,100.8	$ 0.0	$ 51,100.8
E. Military Construction/Family Housing			
Intragovernmental Gross Costs	$ 4,069.7	$ 0.0	$ 4,069.7
(Less: Intragovernmental Earned Revenue)	(2,242.3)	0.0	(2,242.3)
Intragovernmental Net Costs	$ 1,827.4	$ 0.0	$ 1,827.4
Gross Costs With the Public	3,723.8	0.0	3,723.8
(Less: Earned Revenue From the Public)	(551.6)	0.0	(551.6)
Net Costs With the Public	$ 3,172.2	$ 0.0	$ 3,172.2
Total Net Cost	$ 4,999.6	$ 0.0	$ 4,999.6
F. Military Retirement Fund			
Intragovernmental Gross Costs	$ 1,272.1	$ 1,272.1	$ 0.0
(Less: Intragovernmental Earned Revenue)	(64,411.5)	(54,018.0)	(10,393.5)
Intragovernmental Net Costs	$ (63,139.4)	$ (52,745.9)	$ (10,393.5)
Gross Costs With the Public	111,921.6	0.0	111,921.6
(Less: Earned Revenue From the Public)	0.0	0.0	0.0
Net Costs With the Public	$ 111,921.6	$ 0.0	$ 111,921.6
Total Net Cost	$ 48,782.2	$ (52,745.9)	$ 101,528.1

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		2002 Consolidated
D. Research, Development, Test & Evaluation		
Intragovernmental Gross Costs	$	(172.1)
(Less: Intragovernmental Earned Revenue)		(213.7)
Intragovernmental Net Costs	$	(385.8)
Gross Costs With the Public		44,051.7
(Less: Earned Revenue From the Public)		(531.1)
Net Costs With the Public	$	43,520.6
Total Net Cost	$	43,134.8
E. Military Construction/Family Housing		
Intragovernmental Gross Costs	$	0.2
(Less: Intragovernmental Earned Revenue)		(15.1)
Intragovernmental Net Costs	$	(14.9)
Gross Costs With the Public		4,659.5
(Less: Earned Revenue From the Public)		(245.1)
Net Costs With the Public	$	4,414.4
Total Net Cost	$	4,399.5
F. Military Retirement Fund		
Intragovernmental Gross Costs	$	0.0
(Less: Intragovernmental Earned Revenue)		(12,397.8)
Intragovernmental Net Costs	$	(12,397.8)
Gross Costs With the Public		56,855.8
(Less: Earned Revenue From the Public)		0.0
Net Costs With the Public	$	56,855.8
Total Net Cost	$	44,458.0

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CONSOLIDATING STATEMENT OF NET COST
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	Army General Fund	Navy General Fund	Air Force General Fund
G. Civil Works			
Intragovernmental Gross Costs			
(Less: Intragovernmental Earned Revenue)			
Intragovernmental Net Costs			
Gross Costs With the Public			
(Less: Earned Revenue From the Public)			
Net Costs With the Public			
Total Net Cost			
H. Working Capital Funds			
Intragovernmental Gross Costs			
(Less: Intragovernmental Earned Revenue)			
Intragovernmental Net Costs			
Gross Costs With the Public			
(Less: Earned Revenue From the Public)			
Net Costs With the Public			
Total Net Cost			
I. Other			
Intragovernmental Gross Costs	$ 10,395.1	$ 1,058.0	$ 9,741.4
(Less: Intragovernmental Earned Revenue)	6,674.8	735.7	2,657.8
Intragovernmental Net Costs	$ 17,069.9	$ 1,793.7	$ 12,399.2
Gross Costs With the Public	(14,289.9)	672.2	(12,046.1)
(Less: Earned Revenue From the Public)	22.5	83.2	(12.2)
Net Costs With the Public	$ (14,267.4)	$ 755.4	$ (12,058.3)
Total Net Cost	$ 2,802.5	$ 2,549.1	$ 340.9

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	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
G. Civil Works			
Intragovernmental Gross Costs			
(Less: Intragovernmental Earned Revenue)			
Intragovernmental Net Costs			
Gross Costs With the Public			
(Less: Earned Revenue From the Public)			
Net Costs With the Public			
Total Net Cost			
H. Working Capital Funds			
Intragovernmental Gross Costs	$ 2,651.5	$ 5,422.2	$ 5,448.3
(Less: Intragovernmental Earned Revenue)	(10,283.9)	(21,871.9)	(13,317.8)
Intragovernmental Net Costs	$ (7,632.4)	$ (16,449.7)	$ (7,869.5)
Gross Costs With the Public	7,334.0	17,656.3	8,224.8
(Less: Earned Revenue From the Public)	(222.1)	(766.7)	(393.9)
Net Costs With the Public	$ 7,111.9	$ 16,889.6	$ 7,830.9
Total Net Cost	$ (520.5)	$ 439.9	$ (38.6)
I. Other			
Intragovernmental Gross Costs			
(Less: Intragovernmental Earned Revenue)			
Intragovernmental Net Costs			
Gross Costs With the Public			
(Less: Earned Revenue From the Public)			
Net Costs With the Public			
Total Net Cost			

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	US Army Corps of Engineers	Other Defense Organizations General Funds	Other Defense Organizations Working Capital Funds
G. Civil Works			
Intragovernmental Gross Costs	$ 819.2		
(Less: Intragovernmental Earned Revenue)	(1,011.8)		
Intragovernmental Net Costs	$ (192.6)		
Gross Costs With the Public	9,467.0		
(Less: Earned Revenue From the Public)	(298.6)		
Net Costs With the Public	$ 9,168.4		
Total Net Cost	$ 8,975.8		
H. Working Capital Funds			
Intragovernmental Gross Costs			$ 3,475.1
(Less: Intragovernmental Earned Revenue)			(33,975.9)
Intragovernmental Net Costs			$ (30,500.8)
Gross Costs With the Public			37,990.8
(Less: Earned Revenue From the Public)			(6,249.9)
Net Costs With the Public			$ 31,740.9
Total Net Cost			$ 1,240.1
I. Other			
Intragovernmental Gross Costs		$ 32,148.6	
(Less: Intragovernmental Earned Revenue)		139.8	
Intragovernmental Net Costs		$ 32,288.4	
Gross Costs With the Public		14,889.1	
(Less: Earned Revenue From the Public)		(652.2)	
Net Costs With the Public		$ 14,236.9	
Total Net Cost		$ 46,525.3	

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	Combined Total	Elimination	2003 Consolidated
G. Civil Works			
Intragovernmental Gross Costs	$ 819.2	$ 58.3	$ 760.9
(Less: Intragovernmental Earned Revenue)	(1,011.8)	(530.7)	(481.1)
Intragovernmental Net Costs	$ (192.6)	$ (472.4)	$ 279.8
Gross Costs With the Public	9,467.0	0.0	9,467.0
(Less: Earned Revenue From the Public)	(298.6)	0.0	(298.6)
Net Costs With the Public	$ 9,168.4	$ 0.0	$ 9,168.4
Total Net Cost	$ 8,975.8	$ (472.4)	$ 9,448.2
H. Working Capital Funds			
Intragovernmental Gross Costs	$ 16,997.1	$ 13,836.7	$ 3,160.4
(Less: Intragovernmental Earned Revenue)	(79,449.5)	(78,373.9)	(1,075.6)
Intragovernmental Net Costs	$ (62,452.4)	$ (64,537.1)	$ 2,084.7
Gross Costs With the Public	71,205.9	0.0	71,205.9
(Less: Earned Revenue From the Public)	(7,632.6)	0.0	(7,632.6)
Net Costs With the Public	$ 63,573.3	$ 0.0	$ 63,573.3
Total Net Cost	$ 1,120.9	$ (64,537.1)	$ 65,658.0
I. Other			
Intragovernmental Gross Costs	$ 53,343.1	$ 127,853.4	$ (74,510.3)
(Less: Intragovernmental Earned Revenue)	10,208.1	(13,750.5)	23,958.6
Intragovernmental Net Costs	$ 63,551.2	$ 114,102.9	$ (50,551.7)
Gross Costs With the Public	(10,774.7)	0.0	(10,774.7)
(Less: Earned Revenue From the Public)	(558.7)	0.0	(558.7)
Net Costs With the Public	$ (11,333.4)	$ 0.0	$ (11,333.4)
Total Net Cost	$ 52,217.8	$ 114,102.9	$ (61,885.1)

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	2002 Consolidated
G. Civil Works	
Intragovernmental Gross Costs	$ 731.3
(Less: Intragovernmental Earned Revenue)	(608.2)
Intragovernmental Net Costs	$ 123.1
Gross Costs With the Public	6,314.8
(Less: Earned Revenue From the Public)	(121.7)
Net Costs With the Public	$ 6,193.1
Total Net Cost	$ 6,316.2
H. Working Capital Funds	
Intragovernmental Gross Costs	$ 3,054.6
(Less: Intragovernmental Earned Revenue)	(1,136.8)
Intragovernmental Net Costs	$ 1,917.8
Gross Costs With the Public	61,919.2
(Less: Earned Revenue From the Public)	(8,004.6)
Net Costs With the Public	$ 53,914.6
Total Net Cost	$ 55,832.4
I. Other	
Intragovernmental Gross Costs	$ 248.2
(Less: Intragovernmental Earned Revenue)	(114.9)
Intragovernmental Net Costs	$ 133.3
Gross Costs With the Public	13,205.3
(Less: Earned Revenue From the Public)	(1,290.3)
Net Costs With the Public	$ 11,915.0
Total Net Cost	$ 12,048.3

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CONSOLIDATING STATEMENT OF NET COST
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	Army General Fund	Navy General Fund	Air Force General Fund
J. Total Program Costs			
Intragovernmental Gross Costs	$ 30,100.9	$ 35,142.6	$ 26,846.8
(Less: Intragovernmental Earned Revenue)	(6,519.0)	(3,186.9)	(3,986.5)
Intragovernmental Net Costs	$ 23,581.9	$ 31,955.7	$ 22,860.3
Gross Costs With the Public	84,768.8	81,168.7	99,803.3
(Less: Earned Revenue From the Public)	(919.2)	(1,919.7)	(836.1)
Net Costs With the Public	$ 83,849.6	$ 79,249.0	$ 98,967.2
Total Net Cost	$ 107,431.5	$ 111,204.7	$ 121,827.5
Cost Not Assigned to Programs	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0
Net Cost of Operations	$ 107,431.5	$ 111,204.7	$ 121,827.5

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CONSOLIDATING STATEMENT OF NET COST
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	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
J. Total Program Costs			
Intragovernmental Gross Costs	$ 2,651.5	$ 5,422.2	$ 5,448.3
(Less: Intragovernmental Earned Revenue)	(10,283.9)	(21,871.9)	(13,317.8)
Intragovernmental Net Costs	$ (7,632.4)	$ (16,449.7)	$ (7,869.5)
Gross Costs With the Public	7,334.0	17,656.3	8,224.8
(Less: Earned Revenue From the Public)	(222.1)	(766.7)	(393.9)
Net Costs With the Public	$ 7,111.9	$ 16,889.6	$ 7,830.9
Total Net Cost	$ (520.5)	$ 439.9	$ (38.6)
Cost Not Assigned to Programs	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0
Net Cost of Operations	$ (520.5)	$ 439.9	$ (38.6)

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	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
J. Total Program Costs			
Intragovernmental Gross Costs	$ 0.0	$ 819.2	$ 48,295.2
(Less: Intragovernmental Earned Revenue)	(41,645.9)	(1,011.8)	(2,399.4)
Intragovernmental Net Costs	$ (41,645.9)	$ (192.6)	$ 45,895.8
Gross Costs With the Public	44,545.9	9,467.0	67,953.1
(Less: Earned Revenue From the Public)	0.0	(298.6)	(900.9)
Net Costs With the Public	$ 44,545.9	$ 9,168.4	$ 67,052.2
Total Net Cost	$ 2,900.0	$ 8,975.8	$ 112,948.0
Cost Not Assigned to Programs	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0
Net Cost of Operations	$ 2,900.0	$ 8,975.8	$ 112,948.0

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	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	Combined Total
J. Total Program Costs			
Intragovernmental Gross Costs	$ 3,475.1	$ 1,272.1	$ 159,473.9
(Less: Intragovernmental Earned Revenue)	(33,975.9)	(22,765.6)	(160,964.6)
Intragovernmental Net Costs	$ (30,500.8)	$ (21,493.5)	$ (1,490.7)
Gross Costs With the Public	37,990.8	67,375.7	526,288.4
(Less: Earned Revenue From the Public)	(6,249.9)	0.0	(12,507.1)
Net Costs With the Public	$ 31,740.9	$ 67,375.7	$ 513,781.3
Total Net Cost	$ 1,240.1	$ 45,882.2	$ 512,290.6
Cost Not Assigned to Programs	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0
Net Cost of Operations	$ 1,240.1	$ 45,882.2	$ 512,290.6

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	Elimination	2003 Consolidated	2002 Consolidated
J. Total Program Costs			
Intragovernmental Gross Costs	$ 147,725.6	$ 11,748.3	$ 10,714.1
(Less: Intragovernmental Earned Revenue)	(147,725.6)	(13,239.0)	(15,586.8)
Intragovernmental Net Costs	$ 0.0	$ (1,490.7)	$ (4,872.7)
Gross Costs With the Public	0.0	526,288.4	398,956.8
(Less: Earned Revenue From the Public)	0.0	(12,507.1)	(13,876.7)
Net Costs With the Public	$ 0.0	$ 513,781.3	$ 385,080.1
Total Net Cost	$ 0.0	$ 512,290.6	$ 380,207.4
Cost Not Assigned to Programs	0.0	0.0	0.0
(Less:Earned Revenue Not Attributable to Programs)	0.0	0.0	0.0
Net Cost of Operations	$ 0.0	$ 512,290.6	$ 380,207.4

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CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
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	Army General Fund	Navy General Fund	Air Force General Fund
CUMULATIVE RESULTS OF OPERATIONS			
1. Beginning Balances	$ 5,790.8	$ 44,169.7	$ 47,443.2
2. Prior period adjustments (+/-)	97,897.6	152,557.3	122,475.1
3. Beginning Balances, as adjusted	103,688.4	196,727.0	169,918.3
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0
4.D. Appropriations used	106,904.9	136,481.5	113,384.1
4.E. Nonexchange revenue	0.1	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	15.0	0.0	9.1
4.G. Transfers-in/out without reimbursement (+/-)	479.2	0.0	0.0
4.H. Other budgetary financing sources (+/-)	(3,636.6)	0.0	(678.8)
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	(321.4)	51.8	(110.7)
5.C. Imputed financing from costs absorbed by others	818.5	509.7	633.0
5.D. Other (+/-)	115.1	0.0	0.0
6. Total Financing Sources	104,374.8	137,043.0	113,236.7
7. Net Cost of Operations (+/-)	107,431.5	111,204.7	121,827.5
8. Ending Balances	$ 100,631.7	$ 222,565.3	$ 161,327.5

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CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
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	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
CUMULATIVE RESULTS OF OPERATIONS			
1. Beginning Balances	$ 11,913.1	$ 18,006.7	$ 11,593.9
2. Prior period adjustments (+/-)	0.0	0.0	(55.1)
3. Beginning Balances, as adjusted	11,913.1	18,006.7	11,538.8
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0
4.D. Appropriations used	267.1	40.2	24.0
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	(63.9)	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	908.6	(13.5)	(209.3)
5.C. Imputed financing from costs absorbed by others	121.3	543.4	145.2
5.D. Other (+/-)	217.1	0.0	0.0
6. Total Financing Sources	1,450.2	570.1	(40.1)
7. Net Cost of Operations (+/-)	(520.5)	439.9	(38.6)
8. Ending Balances	$ 13,883.8	$ 18,136.9	$ 11,537.3

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For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
CUMULATIVE RESULTS OF OPERATIONS			
1. Beginning Balances	$ (553,516.7)	$ 39,695.1	$ (587,812.2)
2. Prior period adjustments (+/-)	0.0	(2,669.5)	13,072.9
3. Beginning Balances, as adjusted	(553,516.7)	37,025.6	(574,739.3)
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	(13.0)
4.D. Appropriations used	0.0	4,323.7	93,770.9
4.E. Nonexchange revenue	0.0	931.2	(0.1)
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.3
4.G. Transfers-in/out without reimbursement (+/-)	0.0	863.2	(7.2)
4.H. Other budgetary financing sources (+/-)	0.0	(32.5)	1,382.7
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	4.6	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	(56.3)	405,020.7
5.C. Imputed financing from costs absorbed by others	0.0	225.1	560.3
5.D. Other (+/-)	0.0	(19.4)	(4.7)
6. Total Financing Sources	0.0	6,239.6	500,709.9
7. Net Cost of Operations (+/-)	2,900.0	8,975.8	112,948.0
8. Ending Balances	$ (556,416.7)	$ 34,289.4	$ (186,977.4)

Department of Defense

Agency Wide

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2003 and 2002

($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	Combined Total
CUMULATIVE RESULTS OF OPERATIONS			
1. Beginning Balances	$ 15,768.7	$ 0.0	$ (946,947.7)
2. Prior period adjustments (+/-)	5.5	0.0	383,283.8
3. Beginning Balances, as adjusted	15,774.2	0.0	(563,663.9)
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	(13.0)
4.D. Appropriations used	2,265.4	0.0	457,461.9
4.E. Nonexchange revenue	0.0	0.0	931.2
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	24.4
4.G. Transfers-in/out without reimbursement (+/-)	(6.0)	0.0	1,329.2
4.H. Other budgetary financing sources (+/-)	161.7	0.0	(2,867.4)
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	4.6
5.B. Transfers-in/out without reimbursement (+/-)	226.8	(412,198.8)	(6,702.1)
5.C. Imputed financing from costs absorbed by others	310.4	0.0	3,866.9
5.D. Other (+/-)	0.0	0.0	308.1
6. Total Financing Sources	2,958.3	(412,198.8)	454,343.8
7. Net Cost of Operations (+/-)	1,240.1	45,882.2	512,290.6
8. Ending Balances	$ 17,492.4	$ (458,081.0)	$ (621,610.7)

Department of Defense
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CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Elimination	2003 Consolidated	2002 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
1. Beginning Balances	$ 0.0	$ (946,947.7)	$ (874,049.9)
2. Prior period adjustments (+/-)	0.0	383,283.8	(61,760.0)
3. Beginning Balances, as adjusted	0.0	(563,663.9)	(935,809.9)
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	0.0	0.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	(13.0)	0.0
4.D. Appropriations used	0.0	457,461.9	361,217.8
4.E. Nonexchange revenue	0.0	931.2	1,236.5
4.F. Donations and forfeitures of cash and cash equivalents	0.0	24.4	24.1
4.G. Transfers-in/out without reimbursement (+/-)	0.0	1,329.2	(706.7)
4.H. Other budgetary financing sources (+/-)	0.0	(2,867.4)	3,225.5
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	4.6	0.3
5.B. Transfers-in/out without reimbursement (+/-)	0.0	(6,702.1)	744.3
5.C. Imputed financing from costs absorbed by others	0.0	3,866.9	3,520.0
5.D. Other (+/-)	0.0	308.1	16.7
6. Total Financing Sources	0.0	454,343.8	369,278.5
7. Net Cost of Operations (+/-)	0.0	512,290.6	380,207.4
8. Ending Balances	$ 0.0	$ (621,610.7)	$ (946,738.8)

Department of Defense
Agency Wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
UNEXPENDED APPROPRIATIONS			
1. Beginning Balances	$ 31,468.7	$ 64,774.3	$ 39,543.8
2. Prior period adjustments (+/-)	0.0	0.0	0.0
3. Beginning Balances, as adjusted	31,468.7	64,774.3	39,543.8
4. Budgetary Financing Sources:			
4.A. Appropriations received	117,668.0	122,132.7	124,225.9
4.B. Appropriations transferred-in/out (+/-)	6,042.7	1,810.3	2,179.8
4.C. Other adjustments (rescissions, etc) (+/-)	(599.8)	(1,454.6)	(1,823.1)
4.D. Appropriations used	(106,904.9)	(136,481.5)	(113,384.1)
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0	0.0
5.D. Other (+/-)	0.0	0.0	0.0
6. Total Financing Sources	16,206.0	(13,993.1)	11,198.5
7. Net Cost of Operations (+/-)	0.0	0.0	0.0
8. Ending Balances	$ 47,674.7	$ 50,781.2	$ 50,742.3

Department of Defense
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CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
UNEXPENDED APPROPRIATIONS			
1. Beginning Balances	$ 30.0	$ 0.0	$ 0.0
2. Prior period adjustments (+/-)	0.0	0.0	0.0
3. Beginning Balances, as adjusted	30.0	0.0	0.0
4. Budgetary Financing Sources:			
4.A. Appropriations received	249.0	40.2	24.0
4.B. Appropriations transferred-in/out (+/-)	0.0	0.0	0.0
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	0.0
4.D. Appropriations used	(267.1)	(40.2)	(24.0)
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0	0.0
5.D. Other (+/-)	0.0	0.0	0.0
6. Total Financing Sources	(18.1)	0.0	0.0
7. Net Cost of Operations (+/-)	0.0	0.0	0.0
8. Ending Balances	$ 11.9	$ 0.0	$ 0.0

Department of Defense

Agency Wide

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2003 and 2002

($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
UNEXPENDED APPROPRIATIONS			
1. Beginning Balances	$ 0.0	$ 1,064.9	$ 40,441.2
2. Prior period adjustments (+/-)	0.0	0.0	0.0
3. Beginning Balances, as adjusted	0.0	1,064.9	40,441.2
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	4,027.1	107,346.6
4.B. Appropriations transferred-in/out (+/-)	0.0	196.1	(9,856.0)
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	(344.4)	(915.2)
4.D. Appropriations used	0.0	(4,306.8)	(93,770.9)
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0	0.0
5.D. Other (+/-)	0.0	0.0	0.0
6. Total Financing Sources	0.0	(428.0)	2,804.5
7. Net Cost of Operations (+/-)	0.0	0.0	0.0
8. Ending Balances	$ 0.0	$ 636.9	$ 43,245.7

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CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	Combined Total
UNEXPENDED APPROPRIATIONS			
1. Beginning Balances	$ (40.3)	$ 0.0	$ 177,282.6
2. Prior period adjustments (+/-)	0.0	0.0	0.0
3. Beginning Balances, as adjusted	(40.3)	0.0	177,282.6
4. Budgetary Financing Sources:			
4.A. Appropriations received	1,323.2	0.0	477,036.7
4.B. Appropriations transferred-in/out (+/-)	844.9	0.0	1,217.8
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	0.0	(5,137.1)
4.D. Appropriations used	(2,264.7)	0.0	(457,444.2)
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0	0.0
5.D. Other (+/-)	0.0	0.0	0.0
6. Total Financing Sources	(96.6)	0.0	15,673.2
7. Net Cost of Operations (+/-)	0.0	0.0	0.0
8. Ending Balances	$ (136.9)	$ 0.0	$ 192,955.8

Department of Defense
Agency Wide
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Elimination	2003 Consolidated	2002 Consolidated
UNEXPENDED APPROPRIATIONS			
1. Beginning Balances	$ 0.0	$ 177,282.6	$ 163,190.6
2. Prior period adjustments (+/-)	0.0	0.0	1,553.3
3. Beginning Balances, as adjusted	0.0	177,282.6	164,743.9
4. Budgetary Financing Sources:			
4.A. Appropriations received	0.0	477,036.7	365,636.4
4.B. Appropriations transferred-in/out (+/-)	0.0	1,217.8	9,389.2
4.C. Other adjustments (rescissions, etc) (+/-)	0.0	(5,137.1)	(2,707.4)
4.D. Appropriations used	0.0	(457,444.2)	(359,779.5)
4.E. Nonexchange revenue	0.0	0.0	0.0
4.F. Donations and forfeitures of cash and cash equivalents	0.0	0.0	0.0
4.G. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
4.H. Other budgetary financing sources (+/-)	0.0	0.0	0.0
5. Other Financing Sources:			
5.A. Donations and forfeitures of property	0.0	0.0	0.0
5.B. Transfers-in/out without reimbursement (+/-)	0.0	0.0	0.0
5.C. Imputed financing from costs absorbed by others	0.0	0.0	0.0
5.D. Other (+/-)	0.0	0.0	0.0
6. Total Financing Sources	0.0	15,673.2	12,538.7
7. Net Cost of Operations (+/-)	0.0	0.0	0.0
8. Ending Balances	$ 0.0	$ 192,955.8	$ 177,282.6

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 117,695.5	$ 122,169.4	$ 124,235.7
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	0.0	0.7	0.0
1d. Net transfers (+/-)	5,307.4	1,662.1	1,888.2
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	5,858.3	11,909.1	6,066.5
2b. Net transfers, actual (+/-)	1,214.5	145.5	291.6
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	14,095.7	6,792.6	7,802.5
2. Receivable from Federal sources	13.0	(1,211.5)	(322.9)
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	119.3	(59.8)	213.5
2. Without advance from Federal sources	3,655.3	308.3	472.2
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	17,883.3	5,829.6	8,165.3
4. Recoveries of prior year obligations	8,001.4	7,009.3	1,956.0
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	(1,304.6)	(1,452.6)	(1,806.4)
7. Total Budgetary Resources	$ 154,655.8	$ 147,273.1	$ 140,796.9

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 249.0	$ 40.2	$ 24.0
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	67.6	558.1	(35.6)
1d. Net transfers (+/-)	0.0	0.0	0.0
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	1,708.1	4,117.3	305.8
2b. Net transfers, actual (+/-)	0.0	(30.2)	(125.0)
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	9,644.3	25,585.5	17,643.3
2. Receivable from Federal sources	236.2	(432.2)	83.8
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	(179.2)	178.2	(371.9)
2. Without advance from Federal sources	2,351.2	1,964.2	200.6
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	12,052.5	27,295.7	17,555.8
4. Recoveries of prior year obligations	588.0	0.0	2.0
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	(204.1)	(119.5)
7. Total Budgetary Resources	$ 14,665.2	$ 31,777.0	$ 17,607.5

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 42,155.4	$ 7,652.9	$ 108,450.5
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	0.0	0.0	482.3
1d. Net transfers (+/-)	0.0	161.0	(8,863.3)
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	169,269.2	1,741.0	13,020.3
2b. Net transfers, actual (+/-)	0.0	0.0	(1,417.1)
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	0.0	5,065.6	5,029.1
2. Receivable from Federal sources	0.0	(74.8)	133.8
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	0.0	(16.3)	(62.4)
2. Without advance from Federal sources	0.0	262.1	326.0
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	0.0	5,236.6	5,426.5
4. Recoveries of prior year obligations	0.0	0.0	5,263.3
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	(8.7)	(949.0)
7. Total Budgetary Resources	$ 211,424.6	$ 14,782.8	$ 121,413.5

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 1,323.2	$ 22,765.6	$ 546,761.4
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	27,035.9	0.0	28,109.0
1d. Net transfers (+/-)	844.9	0.0	1,000.3
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	3,726.7	0.0	217,722.3
2b. Net transfers, actual (+/-)	125.0	0.0	204.3
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	43,928.6	0.0	135,587.2
2. Receivable from Federal sources	860.0	0.0	(714.6)
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	148.0	0.0	(30.6)
2. Without advance from Federal sources	1,461.0	0.0	11,000.9
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	46,397.6	0.0	145,842.9
4. Recoveries of prior year obligations	21.9	0.0	22,841.9
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	(27,885.5)	0.0	(33,730.4)
7. Total Budgetary Resources	$ 51,589.7	$ 22,765.6	$ 928,751.7

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COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

		2002 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$	415,113.9
1b. Borrowing authority		0.0
1c. Contract authority		2,318.0
1d. Net transfers (+/-)		986.6
1e. Other		0.0
2. Unobligated balance:		
2a. Beginning of period		210,128.9
2b. Net transfers, actual (+/-)		9,107.7
2c. Anticipated Transfers balances		0.0
3. Spending authority from offsetting collections:		
3a. Earned		0.0
1. Collected		117,942.4
2. Receivable from Federal sources		(1,116.6)
3b. Change in unfilled customer orders		0.0
1. Advance received		185.9
2. Without advance from Federal sources		3,576.2
3c. Anticipated for the rest of year, without advances		0.0
3d. Transfers from trust funds		0.0
3e. Subtotal		120,587.9
4. Recoveries of prior year obligations		15,293.1
5. Temporarily not available pursuant to Public Law		0.0
6. Permanently not available		(7,954.7)
7. Total Budgetary Resources	$	765,581.4

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COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 128,012.4	$ 124,497.9	$ 123,375.6
8b. Reimbursable	18,430.4	8,079.9	8,231.4
8c. Subtotal	146,442.8	132,577.8	131,607.0
9. Unobligated balance:			
9a. Apportioned	6,947.1	13,697.0	8,320.6
9b. Exempt from apportionment	25.7	0.0	2.6
9c. Other available	0.0	0.1	(0.1)
10. Unobligated Balances Not Available	1,240.2	998.2	866.8
11. Total, Status of Budgetary Resources	$ 154,655.8	$ 147,273.1	$ 140,796.9
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 33,662.3	$ 56,100.2	$ 41,822.2
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	(1,480.7)	(897.8)	(1,159.0)
14b. Unfilled customer order from Federal sources	(10,816.3)	(2,335.5)	(937.4)
14c. Undelivered orders	44,735.9	63,419.0	42,168.6
14d. Accounts payable	14,044.0	3,335.2	10,469.4
15. Outlays:			
15a. Disbursements	121,952.5	119,051.0	120,782.4
15b. Collections	(14,215.1)	(6,732.7)	(8,016.0)
15c. Subtotal	107,737.4	112,318.3	112,766.4
16. Less: Offsetting receipts	(95.6)	(246.8)	(156.7)
17. Net Outlays	$ 107,641.8	$ 112,071.5	$ 112,609.7

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 249.0	$ 0.0	$ 24.0
8b. Reimbursable	12,322.5	27,263.6	16,976.4
8c. Subtotal	12,571.5	27,263.6	17,000.4
9. Unobligated balance:			
9a. Apportioned	2,093.7	4,632.1	607.1
9b. Exempt from apportionment	0.0	0.0	0.0
9c. Other available	0.0	0.1	0.0
10. Unobligated Balances Not Available	0.0	(118.8)	0.0
11. Total, Status of Budgetary Resources	$ 14,665.2	$ 31,777.0	$ 17,607.5
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 918.7	$ 2,985.8	$ 3,504.2
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	(516.4)	(341.1)	(1,145.2)
14b. Unfilled customer order from Federal sources	(4,651.6)	(8,756.1)	(3,999.4)
14c. Undelivered orders	6,085.1	7,998.4	6,166.7
14d. Accounts payable	981.3	4,372.9	2,295.2
15. Outlays:			
15a. Disbursements	8,416.6	25,443.3	16,900.8
15b. Collections	(9,465.1)	(25,763.8)	(17,271.4)
15c. Subtotal	(1,048.5)	(320.5)	(370.6)
16. Less: Offsetting receipts	0.0	0.0	0.0
17. Net Outlays	$ (1,048.5)	$ (320.5)	$ (370.6)

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 35,395.7	$ 5,516.4	$ 99,832.8
8b. Reimbursable	0.0	5,033.7	3,916.7
8c. Subtotal	35,395.7	10,550.1	103,749.5
9. Unobligated balance:			
9a. Apportioned	0.0	1,387.8	13,936.9
9b. Exempt from apportionment	176,028.9	2,844.9	1,802.2
9c. Other available	0.0	0.0	(0.2)
10. Unobligated Balances Not Available	0.0	0.0	1,925.1
11. Total, Status of Budgetary Resources	$ 211,424.6	$ 14,782.8	$ 121,413.5
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 3,135.1	$ 1,047.3	$ 30,417.7
13. Obligated Balance transferred, net (+/-)	0.0	0.0	(23.9)
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	0.0	(160.6)	(833.1)
14b. Unfilled customer order from Federal sources	0.0	(1,635.3)	(962.7)
14c. Undelivered orders	0.0	1,628.9	30,086.2
14d. Accounts payable	2,963.0	1,174.6	4,011.6
15. Outlays:			
15a. Disbursements	35,567.8	10,402.5	96,118.3
15b. Collections	0.0	(5,049.3)	(4,966.7)
15c. Subtotal	35,567.8	5,353.2	91,151.6
16. Less: Offsetting receipts	(17,928.0)	(904.2)	(1,197.1)
17. Net Outlays	$ 17,639.8	$ 4,449.0	$ 89,954.5

Department of Defense
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COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 1,075.4	$ 4,583.2	$ 522,562.4
8b. Reimbursable	46,893.2	0.0	147,147.8
8c. Subtotal	47,968.6	4,583.2	669,710.2
9. Unobligated balance:			
9a. Apportioned	3,398.0	31.7	55,052.0
9b. Exempt from apportionment	0.0	0.0	180,704.3
9c. Other available	0.1	(0.1)	(0.1)
10. Unobligated Balances Not Available	223.0	18,150.8	23,285.3
11. Total, Status of Budgetary Resources	$ 51,589.7	$ 22,765.6	$ 928,751.7
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 8,325.9	$ 0.0	$ 181,919.4
13. Obligated Balance transferred, net (+/-)	0.0	0.0	(23.9)
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	(3,682.5)	0.0	(10,216.4)
14b. Unfilled customer order from Federal sources	(4,327.8)	0.0	(38,422.1)
14c. Undelivered orders	11,147.2	161.8	213,597.8
14d. Accounts payable	5,659.4	106.0	49,412.6
15. Outlays:			
15a. Disbursements	45,155.2	4,315.4	604,105.8
15b. Collections	(44,076.7)	0.0	(135,556.8)
15c. Subtotal	1,078.5	4,315.4	468,549.0
16. Less: Offsetting receipts	0.0	(22,765.6)	(43,294.0)
17. Net Outlays	$ 1,078.5	$ (18,450.2)	$ 425,255.0

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COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

		2002 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	$	420,239.6
8b. Reimbursable		128,030.3
8c. Subtotal		548,269.9
9. Unobligated balance:		
9a. Apportioned		40,917.6
9b. Exempt from apportionment		171,560.5
9c. Other available		(0.1)
10. Unobligated Balances Not Available		4,833.5
11. Total, Status of Budgetary Resources	$	765,581.4
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	$	162,829.3
13. Obligated Balance transferred, net (+/-)		0.0
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable		(10,929.3)
14b. Unfilled customer order from Federal sources		(27,421.1)
14c. Undelivered orders		176,183.8
14d. Accounts payable		45,789.1
15. Outlays:		
15a. Disbursements		509,723.7
15b. Collections		(118,128.2)
15c. Subtotal		391,595.5
16. Less: Offsetting receipts		(45,593.8)
17. Net Outlays	$	346,001.7

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COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 0.0	$ 0.0	$ 0.0
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	0.0	0.0	0.0
1d. Net transfers (+/-)	0.0	0.0	0.0
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	0.8	0.0	0.0
2b. Net transfers, actual (+/-)	0.0	0.0	0.0
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	0.5	0.0	0.0
2. Receivable from Federal sources	0.0	0.0	0.0
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	0.0	0.0	0.0
2. Without advance from Federal sources	0.0	0.0	0.0
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	0.5	0.0	0.0
4. Recoveries of prior year obligations	0.0	0.0	0.0
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	0.0	0.0
7. Total Budgetary Resources	$ 1.3	$ 0.0	$ 0.0

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 0.0	$ 0.0	$ 0.0
1b. Borrowing authority	0.0	0.0	0.0
1c. Contract authority	0.0	0.0	0.0
1d. Net transfers (+/-)	0.0	0.0	0.0
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	0.0	0.0	0.0
2b. Net transfers, actual (+/-)	0.0	0.0	0.0
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	0.0	0.0	0.0
2. Receivable from Federal sources	0.0	0.0	0.0
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	0.0	0.0	0.0
2. Without advance from Federal sources	0.0	0.0	0.0
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	0.0	0.0	0.0
4. Recoveries of prior year obligations	0.0	0.0	0.0
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	0.0	0.0
7. Total Budgetary Resources	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 0.0	$ 0.0	$ 0.0
1b. Borrowing authority	0.0	0.0	50.5
1c. Contract authority	0.0	0.0	0.0
1d. Net transfers (+/-)	0.0	0.0	0.0
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	0.0	0.0	103.2
2b. Net transfers, actual (+/-)	0.0	0.0	0.0
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	0.0	0.0	55.7
2. Receivable from Federal sources	0.0	0.0	(90.0)
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	0.0	0.0	0.0
2. Without advance from Federal sources	0.0	0.0	35.8
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	0.0	0.0	1.5
4. Recoveries of prior year obligations	0.0	0.0	1.9
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	0.0	(0.2)
7. Total Budgetary Resources	$ 0.0	$ 0.0	$ 156.9

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
1. Budget Authority:			
1a. Appropriations received	$ 0.0	$ 0.0	$ 0.0
1b. Borrowing authority	0.0	0.0	50.5
1c. Contract authority	0.0	0.0	0.0
1d. Net transfers (+/-)	0.0	0.0	0.0
1e. Other	0.0	0.0	0.0
2. Unobligated balance:			
2a. Beginning of period	0.0	0.0	104.0
2b. Net transfers, actual (+/-)	0.0	0.0	0.0
2c. Anticipated Transfers balances	0.0	0.0	0.0
3. Spending authority from offsetting collections:			
3a. Earned	0.0	0.0	0.0
1. Collected	0.0	0.0	56.2
2. Receivable from Federal sources	0.0	0.0	(90.0)
3b. Change in unfilled customer orders	0.0	0.0	0.0
1. Advance received	0.0	0.0	0.0
2. Without advance from Federal sources	0.0	0.0	35.8
3c. Anticipated for the rest of year, without advances	0.0	0.0	0.0
3d. Transfers from trust funds	0.0	0.0	0.0
3e. Subtotal	0.0	0.0	2.0
4. Recoveries of prior year obligations	0.0	0.0	1.9
5. Temporarily not available pursuant to Public Law	0.0	0.0	0.0
6. Permanently not available	0.0	0.0	(0.2)
7. Total Budgetary Resources	$ 0.0	$ 0.0	$ 158.2

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2002 Combined
NONBUDGETARY FINANCING ACCOUNTS	
BUDGETARY RESOURCES	
1. Budget Authority:	
1a. Appropriations received	$ 0.0
1b. Borrowing authority	44.2
1c. Contract authority	0.0
1d. Net transfers (+/-)	0.0
1e. Other	0.0
2. Unobligated balance:	
2a. Beginning of period	6.0
2b. Net transfers, actual (+/-)	0.0
2c. Anticipated Transfers balances	0.0
3. Spending authority from offsetting collections:	
3a. Earned	0.0
1. Collected	22.3
2. Receivable from Federal sources	90.6
3b. Change in unfilled customer orders	0.0
1. Advance received	0.0
2. Without advance from Federal sources	0.0
3c. Anticipated for the rest of year, without advances	0.0
3d. Transfers from trust funds	0.0
3e. Subtotal	112.9
4. Recoveries of prior year obligations	0.0
5. Temporarily not available pursuant to Public Law	0.0
6. Permanently not available	0.0
7. Total Budgetary Resources	$ 163.1

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 0.0	$ 0.0	$ 0.0
8b. Reimbursable	0.0	0.0	0.0
8c. Subtotal	0.0	0.0	0.0
9. Unobligated balance:			
9a. Apportioned	1.3	0.0	0.0
9b. Exempt from apportionment	0.0	0.0	0.0
9c. Other available	0.0	0.0	0.0
10. Unobligated Balances Not Available	0.0	0.0	0.0
11. Total, Status of Budgetary Resources	$ 1.3	$ 0.0	$ 0.0
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 0.0	$ 0.0	$ 0.0
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	0.0	0.0	0.0
14b. Unfilled customer order from Federal sources	0.0	0.0	0.0
14c. Undelivered orders	0.0	0.0	0.0
14d. Accounts payable	0.0	0.0	0.0
15. Outlays:			
15a. Disbursements	0.0	0.0	0.0
15b. Collections	(0.5)	0.0	0.0
15c. Subtotal	(0.5)	0.0	0.0
16. Less: Offsetting receipts	0.0	0.0	0.0
17. Net Outlays	$ (0.5)	$ 0.0	$ 0.0

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 0.0	$ 0.0	$ 0.0
8b. Reimbursable	0.0	0.0	0.0
8c. Subtotal	0.0	0.0	0.0
9. Unobligated balance:			
9a. Apportioned	0.0	0.0	0.0
9b. Exempt from apportionment	0.0	0.0	0.0
9c. Other available	0.0	0.0	0.0
10. Unobligated Balances Not Available	0.0	0.0	0.0
11. Total, Status of Budgetary Resources	$ 0.0	$ 0.0	$ 0.0
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 0.0	$ 0.0	$ 0.0
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	0.0	0.0	0.0
14b. Unfilled customer order from Federal sources	0.0	0.0	0.0
14c. Undelivered orders	0.0	0.0	0.0
14d. Accounts payable	0.0	0.0	0.0
15. Outlays:			
15a. Disbursements	0.0	0.0	0.0
15b. Collections	0.0	0.0	0.0
15c. Subtotal	0.0	0.0	0.0
16. Less: Offsetting receipts	0.0	0.0	0.0
17. Net Outlays	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 0.0	$ 0.0	$ 136.4
8b. Reimbursable	0.0	0.0	0.0
8c. Subtotal	0.0	0.0	136.4
9. Unobligated balance:			
9a. Apportioned	0.0	0.0	0.0
9b. Exempt from apportionment	0.0	0.0	0.0
9c. Other available	0.0	0.0	(0.1)
10. Unobligated Balances Not Available	0.0	0.0	20.6
11. Total, Status of Budgetary Resources	$ 0.0	$ 0.0	$ 156.9
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 0.0	$ 0.0	$ (95.1)
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	0.0	0.0	(0.6)
14b. Unfilled customer order from Federal sources	0.0	0.0	(35.8)
14c. Undelivered orders	0.0	0.0	66.3
14d. Accounts payable	0.0	0.0	0.0
15. Outlays:			
15a. Disbursements	0.0	0.0	63.6
15b. Collections	0.0	0.0	(55.7)
15c. Subtotal	0.0	0.0	7.9
16. Less: Offsetting receipts	0.0	0.0	0.0
17. Net Outlays	$ 0.0	$ 0.0	$ 7.9

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
STATUS OF BUDGETARY RESOURCES			
8. Obligations incurred:			
8a. Direct	$ 0.0	$ 0.0	$ 136.4
8b. Reimbursable	0.0	0.0	0.0
8c. Subtotal	0.0	0.0	136.4
9. Unobligated balance:			
9a. Apportioned	0.0	0.0	1.3
9b. Exempt from apportionment	0.0	0.0	0.0
9c. Other available	0.0	0.0	(0.1)
10. Unobligated Balances Not Available	0.0	0.0	20.6
11. Total, Status of Budgetary Resources	$ 0.0	$ 0.0	$ 158.2
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:			
12. Obligated Balance, Net - beginning of period	$ 0.0	$ 0.0	$ (95.1)
13. Obligated Balance transferred, net (+/-)	0.0	0.0	0.0
14. Obligated Balance, Net - end of period:			
14a. Accounts receivable	0.0	0.0	(0.6)
14b. Unfilled customer order from Federal sources	0.0	0.0	(35.8)
14c. Undelivered orders	0.0	0.0	66.3
14d. Accounts payable	0.0	0.0	0.0
15. Outlays:			
15a. Disbursements	0.0	0.0	63.6
15b. Collections	0.0	0.0	(56.2)
15c. Subtotal	0.0	0.0	7.4
16. Less: Offsetting receipts	0.0	0.0	0.0
17. Net Outlays	$ 0.0	$ 0.0	$ 7.4

Department of Defense
Agency Wide
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2003 and 2002
($ in Millions)

		2002 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	$	142.4
8b. Reimbursable		0.0
8c. Subtotal		142.4
9. Unobligated balance:		
9a. Apportioned		0.7
9b. Exempt from apportionment		0.0
9c. Other available		0.0
10. Unobligated Balances Not Available		20.0
11. Total, Status of Budgetary Resources	$	163.1
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	$	0.0
13. Obligated Balance transferred, net (+/-)		0.0
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable		(90.6)
14b. Unfilled customer order from Federal sources		0.0
14c. Undelivered orders		89.6
14d. Accounts payable		0.7
15. Outlays:		
15a. Disbursements		52.0
15b. Collections		(22.3)
15c. Subtotal		29.7
16. Less: Offsetting receipts		0.0
17. Net Outlays	$	29.7

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
1. Obligations incurred	$ 146,442.8	$ 132,577.8	$ 131,607.0
2. Less: Spending authority from offsetting collections and recoveries (-)	(25,885.3)	(12,838.8)	(10,121.2)
3. Obligations net of offsetting collections and recoveries	120,557.5	119,739.0	121,485.8
4. Less: Offsetting receipts (-)	(95.6)	(246.8)	(156.7)
5. Net obligations	120,461.9	119,492.2	121,329.1
Other Resources			
6. Donations and forfeitures of property	0.0	0.0	0.0
7. Transfers in/out without reimbursement (+/-)	(321.4)	51.8	(110.7)
8. Imputed financing from costs absorbed by others	818.5	509.7	633.0
9. Other (+/-)	115.1	0.0	0.0
10. Net other resources used to finance activities	612.2	561.5	522.3
11. Total resources used to finance activities	121,074.1	120,053.7	121,851.4

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
1. Obligations incurred	$ 12,571.5	$ 27,263.6	$ 17,000.3
2. Less: Spending authority from offsetting collections and recoveries (-)	(12,640.3)	(27,295.7)	(17,557.8)
3. Obligations net of offsetting collections and recoveries	(68.8)	(32.1)	(557.5)
4. Less: Offsetting receipts (-)	0.0	0.0	0.0
5. Net obligations	(68.8)	(32.1)	(557.5)
Other Resources			
6. Donations and forfeitures of property	0.0	0.0	0.0
7. Transfers in/out without reimbursement (+/-)	908.6	(13.5)	(209.3)
8. Imputed financing from costs absorbed by others	121.3	543.4	145.2
9. Other (+/-)	217.1	0.0	0.0
10. Net other resources used to finance activities	1,247.0	529.9	(64.1)
11. Total resources used to finance activities	1,178.2	497.8	(621.6)

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
1. Obligations incurred	$ 35,395.7	$ 10,550.1	$ 103,886.0
2. Less: Spending authority from offsetting collections and recoveries (-)	0.0	(5,236.5)	(10,693.5)
3. Obligations net of offsetting collections and recoveries	35,395.7	5,313.6	93,192.5
4. Less: Offsetting receipts (-)	(17,928.0)	(904.2)	(1,197.1)
5. Net obligations	17,467.7	4,409.4	91,995.4
Other Resources			
6. Donations and forfeitures of property	0.0	4.6	0.0
7. Transfers in/out without reimbursement (+/-)	0.0	(56.3)	405,020.7
8. Imputed financing from costs absorbed by others	0.0	225.1	560.3
9. Other (+/-)	0.0	(19.4)	(4.7)
10. Net other resources used to finance activities	0.0	154.0	405,576.3
11. Total resources used to finance activities	17,467.7	4,563.4	497,571.7

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
1. Obligations incurred	$ 47,968.6	$ 4,583.2	$ 669,846.6
2. Less: Spending authority from offsetting collections and recoveries (-)	(46,419.6)	0.0	(168,688.7)
3. Obligations net of offsetting collections and recoveries	1,549.0	4,583.2	501,157.9
4. Less: Offsetting receipts (-)	0.0	(22,765.6)	(43,294.0)
5. Net obligations	1,549.0	(18,182.4)	457,863.9
Other Resources			
6. Donations and forfeitures of property	0.0	0.0	4.6
7. Transfers in/out without reimbursement (+/-)	226.8	(412,198.8)	(6,702.1)
8. Imputed financing from costs absorbed by others	310.4	0.0	3,866.9
9. Other (+/-)	0.0	0.0	308.1
10. Net other resources used to finance activities	537.2	(412,198.8)	(2,522.5)
11. Total resources used to finance activities	2,086.2	(430,381.2)	455,341.4

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

		2002 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$	548,412.3
2. Less: Spending authority from offsetting collections and recoveries (-)		(135,993.9)
3. Obligations net of offsetting collections and recoveries		412,418.4
4. Less: Offsetting receipts (-)		(45,593.8)
5. Net obligations		366,824.6
Other Resources		
6. Donations and forfeitures of property		0.3
7. Transfers in/out without reimbursement (+/-)		24.1
8. Imputed financing from costs absorbed by others		3,520.0
9. Other (+/-)		(475.5)
10. Net other resources used to finance activities		3,068.9
11. Total resources used to finance activities		369,893.5

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
12a. Undelivered Orders (-)	(16,480.2)	(3,213.4)	(8,331.1)
12b. Unfilled Customer Orders	3,774.7	248.4	685.6
13. Resources that fund expenses recognized in prior periods	(282.7)	(31.3)	0.0
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	15.1	0.0	9.1
15. Resources that finance the acquisition of assets	(25,214.8)	(26,444.2)	(19,120.7)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
16a. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0.0	0.0	0.0
16b. Other (+/-)	0.0	0.0	110.7
17. Total resources used to finance items not part of the net cost of operations	(38,187.9)	(29,440.5)	(26,646.4)
18. Total resources used to finance the net cost of operations	82,886.2	90,613.2	95,205.0

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
12a. Undelivered Orders (-)	(3,301.4)	(703.5)	(468.1)
12b. Unfilled Customer Orders	2,171.9	2,142.4	(171.3)
13. Resources that fund expenses recognized in prior periods	(2.8)	0.0	0.0
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.0	0.0	0.0
15. Resources that finance the acquisition of assets	(324.2)	(1,899.6)	1,006.8
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
16a. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0.0	0.0	0.0
16b. Other (+/-)	0.0	0.0	0.0
17. Total resources used to finance items not part of the net cost of operations	(1,456.5)	(460.7)	367.4
18. Total resources used to finance the net cost of operations	(278.3)	37.1	(254.2)

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
12a. Undelivered Orders (-)	0.0	(154.3)	(2,866.8)
12b. Unfilled Customer Orders	0.0	245.8	299.5
13. Resources that fund expenses recognized in prior periods	0.0	0.0	(350.6)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.0	904.7	0.4
15. Resources that finance the acquisition of assets	0.0	1,399.9	(386.0)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
16a. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0.0	0.0	6.0
16b. Other (+/-)	0.0	0.0	(405,553.0)
17. Total resources used to finance items not part of the net cost of operations	0.0	2,396.1	(408,850.5)
18. Total resources used to finance the net cost of operations	17,467.7	6,959.5	88,721.2

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
Resources Used to Finance Items not Part of the Net Cost of Operations			
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
12a. Undelivered Orders (-)	(1,754.5)	(161.8)	(37,435.1)
12b. Unfilled Customer Orders	1,609.1	0.0	11,006.1
13. Resources that fund expenses recognized in prior periods	(18.9)	0.0	(686.3)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0.0	0.0	929.3
15. Resources that finance the acquisition of assets	(2,002.1)	0.0	(72,984.9)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations			
16a. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	(6.0)	0.0	0.0
16b. Other (+/-)	(132.9)	412,198.8	6,623.6
17. Total resources used to finance items not part of the net cost of operations	(2,305.3)	412,037.0	(92,547.3)
18. Total resources used to finance the net cost of operations	(219.1)	(18,344.2)	362,794.1

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2002 Combined
Resources Used to Finance Items not Part of the Net Cost of Operations	
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	
12a. Undelivered Orders (-)	(28,342.6)
12b. Unfilled Customer Orders	3,762.3
13. Resources that fund expenses recognized in prior periods	(7,317.5)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	819.3
15. Resources that finance the acquisition of assets	(9,075.6)
16. Other resources or adjustments to net obligated resources that do not affect net cost of operations	
16a. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0.0
16b. Other (+/-)	(1.1)
17. Total resources used to finance items not part of the net cost of operations	(40,155.2)
18. Total resources used to finance the net cost of operations	329,738.3

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	291.5	0.0	478.3
20. Increase in environmental and disposal liability	2,317.1	0.0	(344.2)
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.0	0.0	0.0
22. Increase in exchange revenue receivable from the the public (-)	0.0	0.0	0.0
23. Other (+/-)	409.3	428.3	14.8
24. Total components of Net Cost of Operations that will require or generate resources in future periods	3,017.9	428.3	148.9
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	21,363.9	16,936.5	13,282.9
26. Revaluation of assets or liabilities (+/-)	(10.7)	3,203.7	1,641.0
27. Other (+/-)	174.4	22.9	11,549.6
28. Total components of Net Cost of Operations that will not require or generate resources	21,527.6	20,163.1	26,473.5
29. Total components of net cost of operations that will not require or generate resources in the current period	24,545.5	20,591.4	26,622.4
30. Net Cost of Operations	107,431.7	111,204.6	121,827.4

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	2.0	0.0	0.0
20. Increase in environmental and disposal liability	0.0	0.0	0.0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.0	0.0	0.0
22. Increase in exchange revenue receivable from the the public (-)	(6.1)	0.0	0.0
23. Other (+/-)	16.5	83.9	27.4
24. Total components of Net Cost of Operations that will require or generate resources in future periods	12.4	83.9	27.4
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	194.1	243.8	185.8
26. Revaluation of assets or liabilities (+/-)	(448.5)	75.0	2.5
27. Other (+/-)	0.0	0.3	0.0
28. Total components of Net Cost of Operations that will not require or generate resources	(254.4)	319.1	188.3
29. Total components of net cost of operations that will not require or generate resources in the current period	(242.0)	403.0	215.7
30. Net Cost of Operations	(520.3)	440.1	(38.5)

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	0.0	0.0	(7.9)
20. Increase in environmental and disposal liability	0.0	0.0	(8.0)
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.0	0.0	0.0
22. Increase in exchange revenue receivable from the the public (-)	0.0	0.0	1.2
23. Other (+/-)	9,146.2	66.4	20,821.1
24. Total components of Net Cost of Operations that will require or generate resources in future periods	9,146.2	66.4	20,806.4
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	0.0	447.7	2,099.7
26. Revaluation of assets or liabilities (+/-)	0.0	1,477.6	(451.9)
27. Other (+/-)	(23,713.9)	24.7	1,771.9
28. Total components of Net Cost of Operations that will not require or generate resources	(23,713.9)	1,950.0	3,419.7
29. Total components of net cost of operations that will not require or generate resources in the current period	(14,567.7)	2,016.4	24,226.1
30. Net Cost of Operations	2,900.0	8,975.9	112,947.3

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Periods:			
19. Increase in annual leave liability	(101.2)	0.0	662.7
20. Increase in environmental and disposal liability	68.7	0.0	2,033.6
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.0	0.0	0.0
22. Increase in exchange revenue receivable from the the public (-)	(1.7)	0.0	(6.6)
23. Other (+/-)	162.9	64,226.4	95,403.2
24. Total components of Net Cost of Operations that will require or generate resources in future periods	128.7	64,226.4	98,092.9
Components not Requiring or Generating Resources:			
25. Depreciation and amortization	520.3	0.0	55,274.7
26. Revaluation of assets or liabilities (+/-)	810.7	0.0	6,299.4
27. Other (+/-)	(0.4)	0.0	(10,170.5)
28. Total components of Net Cost of Operations that will not require or generate resources	1,330.6	0.0	51,403.6
29. Total components of net cost of operations that will not require or generate resources in the current period	1,459.3	64,226.4	149,496.5
30. Net Cost of Operations	1,240.2	45,882.2	512,290.6

Department of Defense
Agency Wide
COMBINING STATEMENT OF FINANCING
For the periods ended September 30, 2003 and 2002
($ in Millions)

	2002 Combined
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
19. Increase in annual leave liability	478.3
20. Increase in environmental and disposal liability	1,712.9
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0.0
22. Increase in exchange revenue receivable from the the public (-)	(3.3)
23. Other (+/-)	34,270.2
24. Total components of Net Cost of Operations that will require or generate resources in future periods	36,458.1
Components not Requiring or Generating Resources:	
25. Depreciation and amortization	7,229.5
26. Revaluation of assets or liabilities (+/-)	(377.4)
27. Other (+/-)	7,158.9
28. Total components of Net Cost of Operations that will not require or generate resources	14,011.0
29. Total components of net cost of operations that will not require or generate resources in the current period	50,469.1
30. Net Cost of Operations	380,207.4

Department of Defense
Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army General Fund	Navy General Fund	Air Force General Fund
1.SOURCE OF COLLECTIONS			
A. Deposits by Foreign Governments	$ 0.0	$ 0.0	$ 0.0
B. Seized Iraqi Cash	808.9	0.0	0.0
C. Other Collections	0.0	0.0	0.0
D. Total Cash Collections	$ 808.9	$ 0.0	$ 0.0
E. Accrual Adjustments (+/-)	$ 0.0	$ 0.0	$ 0.0
F. Total Custodial Collections	$ 808.9	$ 0.0	$ 0.0
2.DISPOSITION OF COLLECTIONS			
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 0.0	$ 0.0	$ 0.0
B. Seized Assets Disbursed on behalf of Iraqi People	530.8	0.0	0.0
C. Increase (Decrease) in Amounts to be Transferred	0.0	0.0	0.0
D. Collections Used for Refunds and Other Payments	0.0	0.0	0.0
E. Retained by The Reporting Entity	0.0	0.0	0.0
F. Seized Assets Retained for Support of the Iraqi People	278.1	0.0	0.0
G. Total Disposition of Collections	$ 808.9	$ 0.0	$ 0.0
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Army Working Capital Fund	Navy Working Capital Fund	Air Force Working Capital Fund
1.SOURCE OF COLLECTIONS			
A. Deposits by Foreign Governments	$ 0.0	$ 0.0	$ 0.0
B. Seized Iraqi Cash	0.0	0.0	0.0
C. Other Collections	0.0	0.0	0.0
D. Total Cash Collections	$ 0.0	$ 0.0	$ 0.0
E. Accrual Adjustments (+/-)	$ 0.0	$ 0.0	$ 0.0
F. Total Custodial Collections	$ 0.0	$ 0.0	$ 0.0
2.DISPOSITION OF COLLECTIONS			
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 0.0	$ 0.0	$ 0.0
B. Seized Assets Disbursed on behalf of Iraqi People	0.0	0.0	0.0
C. Increase (Decrease) in Amounts to be Transferred	0.0	0.0	0.0
D. Collections Used for Refunds and Other Payments	0.0	0.0	0.0
E. Retained by The Reporting Entity	0.0	0.0	0.0
F. Seized Assets Retained for Support of the Iraqi People	0.0	0.0	0.0
G. Total Disposition of Collections	$ 0.0	$ 0.0	$ 0.0
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Military Retirement Fund	US Army Corps of Engineers	Other Defense Organizations General Funds
1.SOURCE OF COLLECTIONS			
A. Deposits by Foreign Governments	$ 0.0	$ 0.0	$ 9,971.6
B. Seized Iraqi Cash	0.0	0.0	0.0
C. Other Collections	0.0	0.0	0.0
D. Total Cash Collections	$ 0.0	$ 0.0	$ 9,971.6
E. Accrual Adjustments (+/-)	$ 0.7	$ 0.0	$ 0.0
F. Total Custodial Collections	$ 0.7	$ 0.0	$ 9,971.6
2.DISPOSITION OF COLLECTIONS			
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 0.0	$ 0.0	$ 10,118.8
B. Seized Assets Disbursed on behalf of Iraqi People	0.0	0.0	0.0
C. Increase (Decrease) in Amounts to be Transferred	0.7	0.0	(147.2)
D. Collections Used for Refunds and Other Payments	0.0	0.0	0.0
E. Retained by The Reporting Entity	0.0	0.0	0.0
F. Seized Assets Retained for Support of the Iraqi People	0.0	0.0	0.0
G. Total Disposition of Collections	$ 0.7	$ 0.0	$ 9,971.6
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

	Other Defense Organizations Working Capital Funds	DoD Medicare-Eligible Retiree Health Care Fund	2003 Combined
1.SOURCE OF COLLECTIONS			
A. Deposits by Foreign Governments	$ 0.0	$ 0.0	$ 9,971.6
B. Seized Iraqi Cash	0.0	0.0	808.9
C. Other Collections	0.0	0.0	0.0
D. Total Cash Collections	$ 0.0	$ 0.0	$ 10,780.5
E. Accrual Adjustments (+/-)	$ 0.0	$ 0.0	$ 0.7
F. Total Custodial Collections	$ 0.0	$ 0.0	$ 10,781.2
2.DISPOSITION OF COLLECTIONS			
A. Disbursed on Behalf of Foreign Governments and International Organizations	$ 0.0	$ 0.0	$ 10,118.8
B. Seized Assets Disbursed on behalf of Iraqi People	0.0	0.0	530.8
C. Increase (Decrease) in Amounts to be Transferred	0.0	0.0	(146.5)
D. Collections Used for Refunds and Other Payments	0.0	0.0	0.0
E. Retained by The Reporting Entity	0.0	0.0	0.0
F. Seized Assets Retained for Support of the Iraqi People	0.0	0.0	278.1
G. Total Disposition of Collections	$ 0.0	$ 0.0	$ 10,781.2
3. NET CUSTODIAL COLLECTION ACTIVITY	$ 0.0	$ 0.0	$ 0.0

Department of Defense
Agency Wide
STATEMENT OF CUSTODIAL ACTIVITY
For the periods ended September 30, 2003 and 2002
($ in Millions)

		2002 Combined
1.SOURCE OF COLLECTIONS		
A. Deposits by Foreign Governments	$	10,732.3
B. Seized Iraqi Cash		0.0
C. Other Collections		0.0
D. Total Cash Collections	$	10,732.3
E. Accrual Adjustments (+/-)	$	0.2
F. Total Custodial Collections	$	10,732.5
2.DISPOSITION OF COLLECTIONS		
A. Disbursed on Behalf of Foreign Governments and International Organizations	$	10,570.0
B. Seized Assets Disbursed on behalf of Iraqi People		0.0
C. Increase (Decrease) in Amounts to be Transferred		162.5
D. Collections Used for Refunds and Other Payments		0.0
E. Retained by The Reporting Entity		0.0
F. Seized Assets Retained for Support of the Iraqi People		0.0
G. Total Disposition of Collections	$	10,732.5
3. NET CUSTODIAL COLLECTION ACTIVITY	$	0.0

Required Supplementary Stewardship Information

Heritage Assets

DEPARTMENT OF DEFENSE CONSOLIDATED
HERITAGE ASSETS
For Fiscal Year Ended September 30, 2003

Categories	Unit of Measure	As of 10/01/02	Additions	Deletions	As of 9/30/03
Museums	Each	261		105	156
Monuments & Memorials	Each	1,464	79		1,543
Cemeteries & Archeological Sites	Sites	25,592	110		25,702
Buildings & Structures	Each	18,929	320		19,249
Major Collections	Each	10	1		11

Heritage Assets are real and personal property with "national" importance due to significant historical (e.g., buildings on the National Registry of Historical Buildings), natural, cultural, educational, artistic, or architectural (e.g. aesthetic) value. Heritage Assets can include museums and/or their collections, art and other collections, archival records, cemeteries, monuments and memorials, and archeological sites.

The FY 2003 categories are defined as follows:

Museums. Buildings that house collection-type items including artwork, archeological artifacts, archival materials, and other historical artifacts. The primary use of such buildings is the preservation, maintenance and display of collection-type Heritage Assets.

Monuments and Memorials. Sites and structures built to honor and preserve the memory of significant individuals and/or events in history.

Cemeteries and Archeological Sites. Land on which gravesites of prominent historical figures and/or items of archeological significance are located.

Buildings and Structures. Includes buildings and structures that are listed on, or are eligible for listing on, the National Register of Historic Places, including Multi-Use Heritage Assets. These buildings do not include museums.

Major Collections. Significant collections that are maintained outside of a museum.

The processes used to establish items as having heritage significance vary among categories and types of assets. Subject matter experts, criteria such as listing on the National Register of Historic Places, and Federal statutes, all play a significant role in characterizing these assets.

The condition assessment of Heritage Assets is based on whether the assets are being cared for and safeguarded in accordance with relevant regulations. The Department's Heritage Assets are in acceptable or good condition and are appropriately safeguarded.

Heritage assets that are also used for general government operations, such as the Pentagon, are classified as Multi-Use Heritage Assets and are reported as both Heritage Assets and Balance Sheet items.

Supplemental information pertaining to Army, Navy and Air Force Heritage Assets follows.

Department of the Army

The Army museum system consists of 117 museums and museum activities worldwide. In addition, historical property is displayed in numerous locations, e.g., regimental and trophy rooms, officers clubs, visitor centers, and chapels. Also, the U.S. Army Corps of Engineers manages one major collection of historical memorabilia, including artifacts and records.

Department of the Navy

The Navy-wide Heritage Asset Management System has been implemented, and has unified the collections management process for Naval Heritage Assets, including historical artifacts, archival items and artwork. The Department of the Navy is in the process of evaluating and cataloguing each of its items.

Department of the Air Force

The United States Air Force Museum, located at Wright-Patterson Air Force Base, Ohio, houses the main collection of historical artifacts that are registered as historical property in the Air Force museum system. The other Air Force museums are considered Air Force Field Museums or Heritage Centers. These entities also contain items of historical interest; some however, are specific to the general locality.

Stewardship Land

DEPARTMENT OF DEFENSE CONSOLIDATED
STEWARDSHIP LAND
For Fiscal Year Ended September 30, 2003
(Acres in Thousands)

Land Use	As of 10/01/02	Additions	Deletions	As of 9/30/03
1. Mission	16,747	--	65	16,682
2. Parks and Historic Sites	1	--	--	1
Total	16,748		65	16,683

Stewardship Land is land that is not acquired for, or in connection with, items of General Property, Plant and Equipment. All land, regardless of its use, provided to the Department from the Public Domain, or at no cost, is classified as Stewardship Land. Stewardship Land is reported in physical units (acres) rather than cost or fair value.

Nonfederal Physical Property

DEPARTMENT OF DEFENSE CONSOLIDATED
NONFEDERAL PHYSICAL PROPERTY
Annual Investments in State and Local Governments
For Fiscal Years 1999 through 2003
(In Millions of Dollars)

Categories	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Transferred Assets:					
National Defense Mission Related	$20	$5	$95	$7	$85
Funded Assets:					
National Defense Mission Related	$17	$7	$20	$21	$11
Total	$37	$12	$115	$28	$96

The Department incurs investments in Nonfederal Physical Property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements, and the purchase of major equipment; and the purchase or improvement of other physical assets. In addition, Nonfederal Physical Property Investments include federally-owned physical property transferred to state and local governments.

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with Federal Accounting Standards Advisory Board requirements.

Department of the Army

The total reported transferred asset values are for non-cash items that were transferred to state and local governments by the Department of the Army. These properties are essential in accomplishing the mission of the Army National Guard. The Army National Guard funds maintenance costs for these nonfederal assets.

Department of the Air Force

The total reported funded asset values are Air National Guard investments in Military Construction Cooperative Agreements. These agreements involve the transfer of funds and allow joint participation with states, counties, and airport authorities for construction or repair of airfield pavements and facilities required to support the flying mission assigned to civilian airfields.

Investments in Research and Development

DEPARTMENT OF DEFENSE CONSOLIDATED
INVESTMENTS IN RESEARCH AND DEVELOPMENT
Annual Investments in Research and Development
For Fiscal Years 1999 through 2003
(In Millions of Dollars)

Categories	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
1. Basic Research	$1,115	$812	$1,311	$1,356	$1,444
2. Applied Research	2,985	3,095	3,843	4,311	4,388
3. Development					
A. Advanced Technology Development	4,444	3,753	4,383	4,604	5,080
B. Demonstration and Validation	6,564	6,557	8,166	10,525	11,928
C. Engineering and Manufacturing Development	7,934	8,353	8,831	9,500	11,234
D. Research, Development, Test & Evaluation Management Support	3,146	2,954	2,946	3,351	3,210
E. Operational Systems Development	9,801	10,124	11,000	11,804	12,289
4. Other	1,636	1,906	--	--	--
Total	$37,625	$37,554	$40,480	$45,451	$49,573

DoD Research and Development programs are classified in the following categories:

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.

Applied Research is the systematic study to understand the means to meet a recognized and specific national security requirement. It is a systematic application of knowledge to develop useful materials, devices, and system or methods.

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 stages defined below:

1. Advanced Technology Development includes development of subsystems and components, and efforts to integrate subsystems and components into system prototypes for field experiments and/or tests in a simulated environment.

2. Advanced Component Development and Prototypes includes efforts necessary to evaluate integrated technologies, representative modes or prototype systems in a high fidelity and realistic operating environment.

3. System Development and Demonstration includes programs that have passed Milestone B approval and are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production.

4. RDT&E Management Support includes research, development, test and evaluation efforts and funds needed to sustain and/or modernize the installations or operations required for general research, development, test and evaluation.

5. Operational Systems Development includes development efforts to upgrade systems that have been fielded or have received approval for full rate production. The activities include hardware and software upgrades for major weapons systems, information and communications networks, and other major end-items.

Investment values included in this report are based on Research, Development, Test and Evaluation (RDT&E) outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards Advisory Board requirements.

Representative program examples for each of the major Research and Development categories are as follows:

Department of the Army

Basic Research:

Defense Research Sciences. This program sustains U.S. Army scientific and technological superiority in land warfighting capability, provides new concepts and technologies for the Army's Future Force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. It fosters innovation in Army niche areas and where the commercial incentive to invest is lacking due to limited markets. It also focuses university single investigators on research areas of Army interest. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into the appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry, ultimately translating into a coherent, well-integrated program that is executed by the five primary contributors: 1) the Army Research Laboratory, which includes the Army Research Office; 2) the Research, Development and Evaluation Command Research, Development and Engineering Centers; 3) the Army Corps of Engineers Research and Development Center; 4) the Army Medical Research and Materiel Command laboratories; and 5) the Army Research Institute.

The basic research program is coordinated with the other Military Services via the Joint Directors of Laboratories panels, Project Reliance, and other interservice working groups. The program responds to the scientific and technological requirements of the DoD Basic Research Plan by enabling the technologies that can significantly improve joint war fighting capabilities. Projects involve basic research efforts directed toward providing fundamental knowledge for the solution of military problems related to long-term national security needs. The work is consistent with Transformation Planning Guidance, the Army Science and Technology Master Plan (ASTMP), the Army Modernization Plan, and the Defense Technology Area Plan (DTAP).

University and Industry Research Centers. This program leverages research in the private sector through Collaborative Technology Alliances (CTA), Centers of Excellence, and the University Affiliated Research Centers. A significant portion of the work performed within this program directly supports Future Force requirements by providing the enabling technologies which will make development of Future Force equipment possible. CTAs are innovative alliances among government, industry and academic organizations to exploit scientific and technological breakthroughs and to transition these breakthroughs to exploratory development and applied research. This program includes the Army's Centers of Excellence, which couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in materials science, electronics and rotary wing technology. Also included is eCYBERMISSION, the Army national web-based competition to stimulate interest in science, math and technology in middle and high school students. This program also includes the Institute for Soldier Nanotechnologies (ISN) at the Massachusetts Institute of Technology. The ISN will emphasize revolutionary materials research for advanced soldier protection and survivability. A Biotechnology Center of Excellence was established in 2003. The Institute for Collaborative Biotechnologies will broaden the Army's use of biotechnology to non-medical areas such as the development of materials, sensors, and information processing. The Army's Institute of Creative Technologies (ICT) is also included in this program. The ICT is a partnership with academia and the entertainment and gaming industries to leverage innovative research and concepts for training and design. Examples of specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. Historically Black Colleges and Universities and Minority Institution Centers of Excellence also address critical research areas for Army Transformation. Work is consistent with Transformation Planning Guidance, the ASTMP, the Army Modernization Plan, and the DTAP.

Applied Research:

This program matures technologies for the Army Transformation as related to High Energy Laser (HEL) weapon systems. Potential HEL weapon system missions in the areas of Information Dominance and Force Protection include countering airborne electro-optical sensors and defending against airborne threats, providing a new, low cost per shot, complement to conventional offensive and defensive weapons. At weapon system power levels, solid-state laser (SSL) technology has the potential to enhance Future Combat Systems survivability by defeating Precision Guided Munitions.

A key project within this program is the development of a multi-hundred kilowatt (kW) SSL laboratory demonstrator. This project will demonstrate a 15-25 kW diode-pumped SSL breadboard in 2004. By 2005, the Army will evaluate this concept against alternative SSL technology approaches being supported by the High Energy Laser Joint Technology Office High-Power Solid-State Laser program. The most promising technology will then be upgraded to a 100kW SSL laboratory device, scheduled for completion in 2007. The project will continue to mature the selected SSL technology into a multi-hundred kW laboratory device. The program element contains no duplication with any effort within the Military Departments. The work is consistent with Transformation Planning Guidance, the ASTMP, the Army Modernization Plan, and the DTAP.

Combat Vehicle and Automotive Technology. This program researches, investigates and applies combat vehicle and automotive technologies that will improve survivability, mobility, sustainability, and maintainability of Army ground vehicles. As combat vehicle systems become smaller and lighter to provide the necessary strategic deployability and tactical mobility, one of the greatest technological and operational challenges is providing adequate protection without reliance on heavy passive armor. This challenge will be met using a layered approach, substituting long-range situational awareness, multi-spectral signature reduction, active protection systems and advanced lightweight armor for conventional armor. This program also advances technologies for critical power, propulsion and electric components, including energy storage, power distribution and pulse forming networks. This program adheres to Tri-Service Reliance Agreements on advanced materials, fuels and lubricants, and ground vehicles, with oversight and coordination provided by the Joint Directors of Laboratories. This program is coordinated with the Marine Corps through the Naval Surface Warfare Center and with other ground vehicle developers within the Departments of Energy, Commerce, Transportation, and the Defense Advanced Research Projects Agency (DARPA). Work is consistent with Transformation Planning Guidance, the ASTMP, the Army Modernization Plan, and the DTAP.

Development

Combat Vehicle and Automotive Advanced Technology. The goal of this program is to mature and demonstrate leap-ahead combat vehicle automotive technologies to realize the

Army's vision and enable transformation to the Future Force. The Future Combat System, the Army's top priority Science and Technology program, is the primary effort funded here in support of Army Transformation. A Memorandum of Agreement between the Army and DARPA delineates the collaborative enabling technologies, cost-shared funding profile and responsibilities associated with this partnership.

This program supports maturation and demonstration of enabling technologies in the areas of survivability, mobility and intra-vehicular digital electronics, and funds efforts to integrate and evaluate diverse vehicle technologies matured by the Army, other DoD agencies, and industry. These advanced technologies are demonstrated in coordination with Army warfighter organizations through vehicle component and system level technology demonstrations. The program adheres to Tri-Service Reliance Agreements on advanced materials, fuels and lubricants, and ground vehicles with oversight and coordination provided by the Joint Directors of Laboratories. This program is coordinated with the Marine Corps through the Naval Surface Warfare Center, the Naval Research Laboratory, Air Force Armaments Command, and other ground vehicle developers within the Departments of Energy, Commerce, Transportation and DARPA. Work is consistent with Transformation Planning Guidance, the ASTMP, the Army Modernization Plan, and the DTAP.

Army Test Ranges and Facilities. This program provides the institutional funding required to operate the developmental test activities required by Department of the Army weapons systems developers and Research, Development, and Engineering Centers. This program provides resources to operate Army's Major Range and Test Facility Bases: White Sands Missile Range, New Mexico; Aberdeen Test Center, Aberdeen Proving Ground, Maryland; and Yuma Proving Ground, Arizona.

This program also provides the resources to operate the Army's developmental test capability at: Aviation Technical Test Center, Fort Rucker, Alabama; and Redstone Technical Test Center, Redstone Arsenal, Alabama. It also provides the resources for test planning and safety verification and confirmation. Developmental test capabilities at the test range have been uniquely established, are in place to support test and evaluation requirements of funded weapons programs, and are required to assure technical performance, adherence to safety requirements, reliability, logistics supportability, and quality of materiel in development and in production. This program sustains the developmental test and evaluation capability required to support all elements of Army Transformation, as well as Joint Service or other Service systems, hardware, and technologies.

Department of the Navy

Basic Research:

Light Emitting Devices. The first-generation display based on polymers that conduct electric current and emit light is being produced and distributed for evaluation. These polymers called "organic light-emitting diodes" (OLED) are self-emissive, by eliminating the need for background lighting that is used in conventional liquid-crystal displays, yet producing a crisp, sharp image. OLEDs also support moving images and offer wider viewing angles without image inversion or loss of contract ratio. Products using this type of technology have the potential of producing such items as computer displays, lighted faces of cell phones, and personal digital assistants.

Designer Proteins. Proteins designed to follow marching orders are the latest in the new field of "synthetic biology," where scientists can create certain organisms to perform specific tasks. A new technology that is being developed would enable plants to change color in the presence of chemical and biological agents. A new computational method for designing sensor proteins is the key. Plants that detect groundwater pollution around chemical facilities, for example, and react by changing color, could be feasible in the near future. A variety of uses are possible from this research such as a TNT-sensing protein to assist the U.S. Navy's underwater robots with locating and disarming explosion devices.

Applied Research:

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 nonsystem specific development efforts.

The following are two representative program examples for the above major category.

Abrupt Wing Stall. For the past 50 years, all aircraft that can operate at velocities near the speed of sound, and angles of attack near maximum lift, have experienced some form of uncommanded lateral motion or abrupt wing stall. The aircraft undergoes a one-sided or side-to-side upset from the intended direction of flight. At the very least, it causes loss of advantage. At its worst, it could result in a loss of the aircraft. The question that this project researched was the following: why did the F/A-018E/F jet fighters experience abrupt wing stall (AWS) when the F/A-18C/D jet fighters did not? A team of scientists and engineers conducted high-speed wind tunnel tests, performed hundreds of computational fluid dynamics calculations, and conducted both piloted and un-piloted simulations of AWS models. An AWS simulation model was developed and flown on a flight simulator. Both qualitative and quantitative simulation data were compared with actual flight test results. The team successfully developed new tools and procedures for an early assessment of an aircraft's susceptibility to AWS. These tools and procedures include experimental, computational, simulation, and flight test figures of merit that can indicate if a new aircraft design will be vulnerable to AWS anywhere in its flight envelope.

Naval-Commercial Test Kit (NACTEK) Water Test Kits. The NACTEK water test kits to improve the Department of the Navy's water-quality program. This effort sets an example of how the Operational Forces, Naval Research Science and Technology Action Team, Office of

Naval Research program staff, and research scientists can work together as a team to develop a process that made use of commercial-off-the-shelf products rather than a Navy-developed system that would require extended development.

Development

Submarine Acoustic Warfare Development. A Submarine Defensive Warfare System is being developed to improve the effectiveness and survivability of all classes of naval submarines. Acoustic Interception consist of developing a new acoustic sensor, the Sparsely Populated Volumetric Array that will improve the performance of acoustic intercept systems. It will also provide a ranging capability for submarines through Acoustic Rapid commercial-off-the-shelf Insertion and Advanced Process build software improvements. Next Generation Countermeasures are also part of this effort.

SSN-688 and Trident Modernization. In this program, the Department of the Navy scientists continued the design and integration efforts of the Common Submarine Radio Room (CSRR) in support of the OHIO class submarines. In addition, they began the CSRR conversion of the TRIDENT Land-Based Evaluation Facility into a CSRR configuration, which will support all classes of submarines. The scientists also completed environmental and qualification testing consisting of airborne/structure borne noise, TEMPEST, humidity, overpressure, temperature, shock, inclination, and drip in support of Multifunctional Crypto System.

Department of the Air Force

Basic Research:

The Air Force's Basic Research program funded basic scientific disciplines that are core to developing future warfighting capabilities. Funding was provided to twelve different scientific project areas. These focused on atmospherics, biological sciences, chemistry, electronics, fluid mechanics, human performance, materials, mathematical and computer sciences, physics, propulsion, space sciences, and structures. One example is the development of technology that could be the breakthrough for a new generation of computers (quantum computers). The Air Force Research Lab (AFRL) demonstrated the ability to stop light and release it again without losing any of its original characteristics. This development could lead to a breakthrough in nonlinear optics with applications from telecommunications to imaging, which could be useful in designing ultra-sensitive optical switches. In another example, AFRL researchers developed a new mathematical theory that would result in a new radar wave that would aid in rapid and accurate target identification through foliage and beneath soil, better than any radar currently in use.

Applied Research:

The Air Force Applied Research program is developing technologies to support the air and space force of the future. Technology developments are focused in those areas that are essential to these warfighting capabilities. This investment strategy allows the Air Force to focus on those military-relevant technologies that are not being developed by industry. (1) One example is the F119 turbine engine case redesign using a new casting process, with a predicted lifecycle cost savings of 35 percent. The redesign makes extensive use of thin-wall castings in place of the existing complex, multi-walled, and diffusion-bonded sheet metal assemblies. The Air Force is now looking at this technology for use on other aircraft engines. Example two, AFRL recently achieved a milestone in wireless Internet communications with the first commercial installation of the Space Communications Protocol Standards (SCPS) transport gateway over National Aeronautics and Space Administration's Advanced Communications Technology Satellite. The SCPS transport gateway offers up to several times the bandwidth utilization efficiency of ordinary internet protocols.

Advanced Technology Development

The Air Force Advanced Technology Development program demonstrates, in a realistic operational environment, integrated sets of technology to prove military worth and utility. The first example was the Air Force and DARPA accomplishing the first Unmanned Combat Air Vehicle flight. This successful flight test demonstrated the command and control links between the aircraft and a mission-oriented ground station. The AFRL then demonstrated a 330 Gigahertz detector that operates at frequencies billions of times faster than the blink of an eye. This technology will be used to produce compact solid-state circuits operating at Terahertz frequencies. Likely technology application would be to enable a new generation of sensors to enhance homeland security.

Demonstration and Validation – The Air Force Advanced Component Development and Prototypes programs are comprised of system specific advanced technology integration efforts accomplished in an operational environment to help expedite transition from the laboratory to operational use. One example of the AF's Demonstration and Validation effort is: The Command and Control System – Consolidated (CCS-C) program. The CCS-C will replace the aging S-Band Command and Control Segment (CCS) that is currently used for the command and control of Military Satellite Communications satellites (MILSATCOM) by the 50th Space Wing (50SW) at Schriever Air Force Base. The CCS-C system selected will drastically reduce the sustainment costs that would have been needed to maintain the aging CCS and offers tremendous enhancements to ease our satellite operators' workload, enabling accurate and efficient control of MILSATCOM satellites. The system is scheduled to take over command and control of MILSATCOM satellites at the end of fiscal year 2004. In FY03, the Air Force awarded contracts for development of Transformational Communications Architecture and approved the program acquisition strategy and architecture. The Transformational Satcom Program will develop key technologies such as laser communications, internet-like communications protocols, and methods of dynamically allocating communications among users. The ultimate goal is a FY10 first launch of a transformational satellite.

Engineering and Manufacturing Development – The Air Force System Demonstration and Engineering Development efforts are development projects which have not received approval for full-production. Examples of such efforts are: (1) The Space Based Infrared System Increment 1 Mission Control Station (MCS) achieved initial operational capability on 18 December 2001.

The MCS consolidates Defense Support Program operations at Buckley Air Force Base, Colorado, reducing manpower by 58 percent and operations and maintenance costs by 25 percent. Subsequent upgrades to the MCS throughout fiscal year 2002 resulted in closure of the Air-Land Enhanced Reconnaissance and Targeting ALERT ground station on 25 September 2002, consolidating all space-based strategic and theater missile warning operations, realizing additional manpower and Operations and Maintenance funds savings; (2) The Fighter/Attack (F/A)-22 Program is developing the next generation air dominance fighter designed to penetrate enemy airspace and achieve a first look, first kill capability against multiple targets. The F/A-22's combination of stealth, supercruise, maneuverability, and integrated avionics, coupled with improved supportability, represents an exponential leap in warfighting capabilities and allows for the full realization of operational concepts that are vital to the 21st century Air Force. The F/A-22 will replace the F-15C as the frontline Air Force air superiority fighter with initial operational capability planned for December 2005. The F/A-22 has been in Engineering and Manufacturing Development since 1991 and is currently meeting or exceeding all Key Performance Parameters. Significant program accomplishments in fiscal year 2002 include:

- Continued 2nd full-scale airframe lifetime fatigue test
- Initiated avionics software Block 3.1.2 FT-3 flight testing
- Completed multiple supersonic AMRAAM and AIM-9 missile shots
- Exceeded 2000 flight test missions, logging in over 4100 hours on the EMD aircraft fleet

The F-35 Joint Strike Fighter program is developing a family of strike fighter aircraft for the Air Force, Navy, Marine Corps and our allies, with maximum commonality among the variants to minimize life cycle costs. The Conventional Takeoff and Landing variant will be a multi-role, primary air-to-ground aircraft to replace the F-16 and A-10 and complement the F/A-22. While the F/A-22 will establish air dominance, the F-35-with its combination of stealth, large internal payloads and multi-spectral avionics-will provide persistent stealth and precision engagement to the future battlespace. The F-35 has been in System Development and Demonstration since 2001 and is currently meeting or exceeding all Key Performance Parameters. In fiscal year 2003, the program completed the Air System Preliminary Design Review and the Pratt & Whitney F135 Engine Critical Design Review and continued General Electric's development of a second, interchangeable engine (F136) for competition in production. Additionally, the program continued the International Commonality Effort to identify an Operational Requirements Document compliant configuration for international partners that maximizes commonality with the U.S. baseline program consistent with National Disclosure Policy.

The B-1B Defensive System Upgrade Program was canceled in December 2002 due to repeated cost and schedule over-runs. However, the AF continued to improve the B-1B's effectiveness through integration of new computers and advanced conventional weapons. Combined Developmental and Operational Testing (DT/OT) for the new computers completed in July, and dedicated operational testing completed in December 2002. Testing showed the computers met or exceeded all Key Performance Parameters and they were approved for full rate production in April 2003. Combined DT/OT flight test for the integration of JSOW and JASSM onto the B-1 began in September 2003 and is scheduled to complete in April 2004.

Research, Development, Test and Evaluation Management Support

The Air Force's Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installation or operations required for general research and development use. Included would be test ranges, military construction, maintenance support of laboratories, operation and maintenance of test aircraft and ships, and studies and analysis in support of the research and development program. An example of an Air Force RDT&E management support is: The Major Test and Evaluation Investment program, which funds the planning, improvements and modernization for three national asset test centers having over $10 billion of unique test facilities/capabilities operated and maintained by the Ai Force DoD test and evaluation missions, and available to others having a requirement for their unique capabilities. Many efforts are contained within this program, but two examples are the Propulsion Wind Tunnel Upgrade at Arnold Engineering Development Center. This effort replaces outdated data acquisition, processing, and control systems and drive motors. The second is the Threat Simulator Development program, which supports many of the AF electronic Warfare Test Processes. Current projects focus on improved Low Radar Cross Section threat modeling and simulation, and enhanced infrared and radio frequency countermeasures testing.

Operational Systems Development

Operational system efforts include projects in support of development acquisition programs or upgrades in System Demonstration and Development. Examples of operational systems development are: (1) AIM9X Sidewinder project, which improves seeker performance, infrared counter-countermeasures, and kinematics of the AIM-9M short range air-to-air missile. AIM-9X regains short, within visual range first-shot, first-kill capability for the U.S. warfighter. Test and Evaluation efforts have been positive, 18 of 19 successful guided launches with 10 direct hits to target drones.

Other notable accomplishments include completion of flight test activities, such as, Operations/Operational Evaluation and Developmental Test (DT) assist. A Low Rate Initial Production contract was awarded November 2002. (2) Another example of Operational Systems Development is the Airborne Warning and Control System Block 40/45 system upgrade. Block 40/45 replaces the 1970's vintage mission computer system with an open system, LAN-based architecture. It also incorporates Multi-Sensor Integration of on-board and off-board sensors into a real-time database allowing for a "single target-single track" to be displayed to the operator and transmitted to the shooter. Block 40/45 also incorporates an improved Data Link Infrastructure that decreases the latency of data link transmissions for high priority targets, thus allowing targets to be transmitted quickly to the shooter. This upgrade improves machine-to-machine interfaces that ultimately compress the kill chain timeline and postures the system to more easily integrate future modifications and support. These future modifications will support horizontal integration and network centric operations. Initial System Development and Design began in 2003.

The first of a series of planned upgrades to the B-2 Spirit Bomber entered flight test in FY03. This bundled package of capability includes the upgraded, or "Smart" Bomb Rack Assembly; ability to drop the 500 lb Joint Direct Attack Munition Mark 82; ability to drop the Enhanced Guided Bomb Unit-28 (EGBU-28) bunker buster; and addition of improved voice and data communication via integration of a programmable UHF satellite communication terminal. Incorporation of this upgraded package into the fleet will begin in FY04. Development of an extended range variant of the Wind Corrected Munitions Dispenser (WCMD-ER) was initiated in FY03. The project extends the range and improves the accuracy of WCMD by adding a wing kit and integrating GPS into the tail kit for CBU-105 (anti-armor targets) and CBU-103 (soft and area targets) dispensers.

The AF Space program achieved nine successful launches of military satellites, utilizing Titan and Delta to launch Milstar-5 and –6, GPS IIR-8 and –9, DSCS A3 and B6, Coriolis, NOAA-M, and NROL-19. AF launch ranges successfully supported 23 military, civil and commercial launches, and the Evolved Expendable Launch Vehicle completed three successful Atlas V launches and three successful Delta IV launches.

Defense Advanced Research Projects Agency (DARPA)

Basic Research:

Brain Machine Interface. The goal of the DARPA Brain Machine Interface effort is to create new technologies for augmenting human performance by non-invasively accessing neural patterns in the brain and integrating them directly into peripheral systems or devices. Recent animal trials have demonstrated the power of the techniques. During 2003, monkeys were taught to control a computer cursor using a brain-machine interface—a suite of tools that detect brain activity and calculate the animal's intentions with respect to arm and hand movement. The monkeys initially used a joystick to move the cursor to designated positions and achieved success approximately 89 percent of the time. Gradually, the monkeys learned to use the interface and the joystick was removed. Using brain-derived signals only, without any involvement if the joystick, the monkeys were able to move the cursor correctly 85 percent of the time. In an expansion of the test, the monkeys' brain signals were interpreted by computer, and the monkey was able to remotely manipulate a robotic arm located in an adjacent room. Non-invasive brain signal monitors are the next step on the road to true human computer interaction.

Terahertz Imaging of Shuttle Foam. DARPA's work in Terahertz Imaging has shown effectiveness in detecting defects in space shuttle foam insulation, a likely contributor to the Columbia disaster in February. In tests conducted at Rensselaer Polytechnic Institute, fabricated defects were detected in 49 out of 57 trials.

Applied Research:

Language Translation. Progress was made on all fronts of the DARPA computerized speech and text translation programs. In tests administered by the National Institute of Standards and Technology, the Text-to-Text translation program was declared the world's best algorithm for translating Arabic language news reports to English. Speech-to-Text efforts showed similar progress, reducing word error rates down from the 50 percent level (where they have hovered for over a decade) to 13 percent for broadcast news and 18 percent for telephone conversations. The on-going speech-to-speech program has been successfully deployed to Iraq where the "phraselator" has been used to translate the medical needs of Iraqi prisoners and for interrogation purposes.

Fiber Lasers. The goal of the DARPA High Power Fiber Laser program is to develop and demonstrate high efficiency single mode fiber lasers with output power approaching one kilowatt from a single aperture. Once demonstrated, the focus will shift to combining multiple fibers coherently to produce a compact and flexible 100+ kilowatt laser. Lasers of this type could enable combat platform self-protection and be used to protect theaters or areas of interest against such threats as cruise missiles, rockets, and unmanned reconnaissance vehicles. During the past year, DARPA researchers set a world record by demonstrating one-kilowatt continuous wave output power from a single fiber. This successful test demonstrated the viability of the fiber laser concept and is an initial step in the ultimate goal of portable, and affordable, laser-based platform self-protection.

Titanium Initiative. A novel approach to titanium alloy production is being explored by DARPA. Using an electrolytic process similar to that used in aluminum manufacture, titanium oxide and other mixed oxides powders are electrically reduced to directly produce high purity titanium metal and alloys. This process eliminates a number of costly steps in the current titanium production process, produces billet material without melting, and most intriguingly, allows for production of new alloys that could not otherwise be synthesized. This low cost production method opens the door for the expanded use of titanium, particularly for parts and components in high corrosion environments where the advantages of titanium are clear, but titanium's current cost prohibits its use.

Development

Command Post of the Future. The objective of the Command Post of the Future program is to improve the speed and quality of command decision-making, more effectively communicate these decisions, and reduce the staff requirements of command posts. The key thrusts of the program are to develop integrated displays that the commander and his subordinates can observe simultaneously, to improve and simplify human-computer interactions and commands, to enable collaborative communications through both voice and visual modes, and to package the components in a modular, ruggedized package. Success has been achieved. The system, now known as the BattleBoard, has been developed, tested and packaged for Service use and has been evaluated by the Army's Stryker Brigade Combat Team. In addition, prototype units are also planned for deployment into Iraq in the fourth quarter of FY 2003.

Semi-Conductor Ultraviolet Laser Radar (LIDAR) Bio-Sensor. DARPA's Semiconductor Ultraviolet Optical Sources (SUVOS) program has demonstrated the world's first ultraviolet LIDAR biological agent sensor using a semiconductor ultraviolet laser diode as a source. SUVOS components are miniaturized and operate effectively at room temperature, lending themselves to hand-held and micro-air vehicle applications. The program holds the promise for high confidence stand-off detection of biological weapons as demonstrated in a recent test where the system was able to detect and distinguish an anthrax simulant intermixed with several common interferents from a range of 20 meters.

Future Combat System. The joint DARPA/Army Future Combat System is developing a rapidly deployable, mobile-networked force consisting of a command, control, communications module, autonomous robotic systems, precision direct and indirect fires, airborne and ground organic sensors, and adverse weather reconnaissance, surveillance, targeting and acquisition capability. By leveraging advanced networking capability, these systems can be dispersed and yet function as a cohesive whole, and by their modular nature, they can be recombined as needed for specific missions. Substantial progress has been made to date. During FY 2003, the system was approved to begin System Development and Demonstration, a lead system integrator was chosen and spiral development plan finalized. At the component technology level, the Netfires direct/indirect fires portion of the FCS, successfully conducted test flights of the Precision Attack Missile. The test represented the nation's first successful flight of a solid rocket motor with variable thrust propulsion. It flew for two minutes, traveled 19 kilometers, and hit within one meter of the target. In addition, FCS communications and networking technology was successfully demonstrated. The test was particularly stressing since it required integration of a number of dissimilar tactical radios of significantly varying capability.

Required Supplementary Information

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure-ment
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$ 64,921.0	$ 62,469.2	$ 55,915.9	$ 7,652.9	$ 163,102.7	$ 75,527.6
Borrowing Authority						
Contract Authority		482.9				
Net Transfers (+/-)		(9,815.6)	(616.7)	161.0	7,155.5	2,669.1
Other						
Unobligated Balance						
Beginning Of Period	169,269.3	6,758.3	5,992.0	1,741.0	4,879.1	15,192.7
Net Transfers, Actual (+/-)		(947.6)	(64.8)		936.9	61.0
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected		1,997.7	6,155.0	5,065.6	19,267.8	1,976.0
Receivable From Federal Sources		162.1	(297.2)	(74.8)	(1,413.1)	182.2
Change In Unfilled Customer Orders						
Advance Received		(33.6)	152.0	(16.3)	(23.6)	13.4
Without Advance From Federal Sources		26.8	240.9	262.1	3,316.5	286.9
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal		2,152.9	6,250.7	5,236.6	21,147.7	2,458.5
Recoveries Of Prior Year Obligations		1,284.1	2,387.5		12,975.3	2,829.4
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available		(102.6)	(798.5)	(8.7)	(2,426.0)	(1,397.1)
Total Budgetary Resources	234,190.3	62,281.6	69,066.1	14,782.8	207,771.2	97,341.2
Status Of Budgetary Resources						
Obligations Incurred						
Direct	39,978.9	48,754.5	55,572.5	5,516.4	180,437.0	74,001.0
Reimbursable		1,654.1	6,678.0	5,033.7	23,009.5	2,091.3
Subtotal	39,978.9	50,408.6	62,250.5	10,550.1	203,446.5	76,092.3
Unobligated Balance						
Apportioned	31.7	9,021.2	6,974.2	1,387.8	1,192.2	20,925.1
Exempt From Apportionment	176,028.9	1,830.4		2,844.9		
Other Available						
Unobligated Balances Not Available	18,150.8	1,021.4	(158.6)	0.0	3,132.5	323.8
Total, Status Of Budgetary Resources	234,190.3	62,281.6	69,066.1	14,782.8	207,771.2	97,341.2
Relationship Of Obligations To Outlays:						
Obligated Balance, Net - Beginning Of Period	3,135.1	12,176.2	22,015.5	1,047.3	43,545.3	70,574.9
Obligated Balance Transferred, Net (+/-)			(4.4)		(19.5)	
Obligated Balance, Net - End Of Period						
Accounts Receivable		(156.6)	(644.5)	(160.6)	(2,280.3)	(583.7)
Unfilled Customer Order From Federal Sources		(163.6)	(2,018.7)	(1,635.3)	(7,646.3)	(1,416.1)

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure-ment
BUDGETARY RESOURCES						
Undelivered Orders	161.8	4,078.1	25,322.1	1,628.9	65,710.9	73,993.4
Accounts Payable	3,069.0	5,655.5	2,457.3	1,174.6	12,931.1	2,425.9
Outlays						
Disbursements	39,883.2	51,698.5	56,814.2	10,402.5	163,378.1	68,949.3
Collections		(1,964.3)	(6,307.0)	(5,049.3)	(19,244.2)	(1,989.4)
Subtotal	39,883.2	49,734.2	50,507.2	5,353.2	144,133.9	66,959.9
Less: Offsetting Receipts	(40,693.6)	(1,292.7)		(904.2)	(246.8)	
Net Outlays	**$ (810.4)**	**$ 48,441.5**	**$ 50,507.2**	**$ 4,449.0**	**$ 143,887.1**	**$ 66,959.9**

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2003 Combined	2002 Combined
BUDGETARY RESOURCES					
Budget Authority					
Appropriations Received	$ 108,471.1	$ 7,064.6	$ 1,636.4	$ 546,761.4	$ 415,113.9
Borrowing Authority					
Contract Authority			27,626.1	28,109.0	2,318.0
Net Transfers (+/-)	590.9	11.2	844.9	1,000.3	986.6
Other					
Unobligated Balance					
Beginning Of Period	569.8	3,462.2	9,857.9	217,722.3	210,128.9
Net Transfers, Actual (+/-)	328.0	(79.0)	(30.2)	204.3	9,107.7
Anticipated Transfers Balances					
Spending Authority From Offsetting Collections					
Earned					
Collected	1,485.4	2,838.0	96,801.7	135,587.2	117,942.4
Receivable From Federal Sources	21.9	(43.4)	747.7	(714.6)	(1,116.6)
Change In Unfilled Customer Orders					
Advance Received		102.3	(224.8)	(30.6)	185.9
Without Advance From Federal Sources	(55.9)	946.6	5,977.0	11,000.9	3,576.2
Anticipated For The Rest Of Year, Without Advances					
Transfers From Trust Funds					
Subtotal	1,451.4	3,843.5	103,301.6	145,842.9	120,587.9
Recoveries Of Prior Year Obligations	2,259.7	494.0	611.9	22,841.9	15,293.1
Temporarily Not Available Pursuant To Public Law					
Permanently Not Available	(653.2)	(135.1)	(28,209.2)	(33,730.4)	(7,954.7)
Total Budgetary Resources	113,017.7	14,661.4	115,639.4	928,751.7	765,581.4
Status Of Budgetary Resources					
Obligations Incurred					
Direct	110,582.0	6,371.7	1,348.4	522,562.4	420,239.6
Reimbursable	1,469.5	3,756.0	103,455.7	147,147.8	128,030.3
Subtotal	112,051.5	10,127.7	104,804.1	669,710.2	548,269.9
Unobligated Balance					
Apportioned	329.1	4,459.7	10,731.0	55,052.0	40,917.6
Exempt From Apportionment				180,704.3	171,560.5
Other Available				(0.1)	(0.1)
Unobligated Balances Not Available	637.1	74.0	104.3	23,285.3	4,833.5
Total, Status Of Budgetary Resources	113,017.7	14,661.4	115,639.4	928,751.7	765,581.4
Relationship Of Obligations To Outlays:					
Obligated Balance, Net - Beginning Of Period	6,230.9	7,459.7	15,734.5	181,919.4	162,829.3
Obligated Balance Transferred, Net (+/-)				(23.9)	
Obligated Balance, Net - End Of Period					
Accounts Receivable	(591.0)	(114.6)	(5,685.1)	(10,216.4)	(10,929.3)
Unfilled Customer Order From Federal Sources	1.0	(3,808.2)	(21,734.9)	(38,422.1)	(27,421.1)

Disaggregated Statement of Budgetary Resources
Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2003 Combined	2002 Combined
BUDGETARY RESOURCES					
Undelivered Orders	617.6	10,687.5	31,397.5	213,597.8	176,183.8
Accounts Payable	7,798.2	592.3	13,308.7	49,412.6	45,789.1
Outlays					
Disbursements	108,231.0	8,833.1	95,915.9	604,105.8	509,723.7
Collections	(1,485.4)	(2,940.3)	(96,576.9)	(135,556.8)	(118,128.2)
Subtotal	106,745.6	5,892.8	(661.0)	468,549.0	391,595.5
Less: Offsetting Receipts	(156.7)			(43,294.0)	(45,593.8)
Net Outlays	**$ 106,588.9**	**$ 5,892.8**	**$ (661.0)**	**$ 425,255.0**	**$ 346,001.7**

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure-ment
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	$	$	$	$	$	$
Borrowing Authority		50.5				
Contract Authority						
Net Transfers (+/-)						
Other						
Unobligated Balance						
Beginning Of Period		103.9				
Net Transfers, Actual (+/-)						
Anticipated Transfers Balances						
Spending Authority From Offsetting Collections						
Earned						
Collected		56.3				
Receivable From Federal Sources		(90.0)				
Change In Unfilled Customer Orders						
Advance Received						
Without Advance From Federal Sources		35.8				
Anticipated For The Rest Of Year, Without Advances						
Transfers From Trust Funds						
Subtotal		2.1				
Recoveries Of Prior Year Obligations		1.9				
Temporarily Not Available Pursuant To Public Law						
Permanently Not Available		(0.2)				
Total Budgetary Resources		158.2				
Status Of Budgetary Resources						
Obligations Incurred						
Direct		136.4				
Reimbursable						
Subtotal		136.4				
Unobligated Balance						
Apportioned		1.3				
Exempt From Apportionment						
Other Available						
Unobligated Balances Not Available		20.6				
Total, Status Of Budgetary Resources		158.3				
Relationship Of Obligations To Outlays:						
Obligated Balance, Net - Beginning Of Period		(95.1)				
Obligated Balance Transferred, Net (+/-)						
Obligated Balance, Net ? End Of Period						
Accounts Receivable		(0.6)				
Unfilled Customer Order From Federal Sources		(35.8)				

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Retirement Fund	Other	Research, Development, Test & Evaluation	Civil Works	Operation and Maintenance	Procure-ment
BUDGETARY RESOURCES						
Undelivered Orders		66.3				
Accounts Payable						
Outlays						
Disbursements		63.6				
Collections		(56.3)				
Subtotal		7.3				
Less: Offsetting Receipts						
Net Outlays	**$**	**$ 7.3**	**$**	**$**	**$**	**$**

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2003 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2003 Combined	2002 Combined
BUDGETARY RESOURCES					
Budget Authority					
Appropriations Received	$	$	$	$	$
Borrowing Authority				50.5	44.2
Contract Authority					
Net Transfers (+/-)					
Other					
Unobligated Balance					
Beginning Of Period				103.9	5.9
Net Transfers, Actual (+/-)					
Anticipated Transfers Balances					
Spending Authority From Offsetting Collections					
Earned					
Collected				56.3	22.4
Receivable From Federal Sources				(90.0)	90.6
Change In Unfilled Customer Orders					
Advance Received					
Without Advance From Federal Sources				35.8	
Anticipated For The Rest Of Year, Without Advances					
Transfers From Trust Funds					
Subtotal				2.1	113.0
Recoveries Of Prior Year Obligations				1.9	
Temporarily Not Available Pursuant To Public Law					
Permanently Not Available				(0.2)	
Total Budgetary Resources				158.2	163.1
Status Of Budgetary Resources					
Obligations Incurred					
Direct				136.4	142.4
Reimbursable					
Subtotal				136.4	142.4
Unobligated Balance					
Apportioned				1.3	.7
Exempt From Apportionment					
Other Available					
Unobligated Balances Not Available				20.6	20.0
Total, Status Of Budgetary Resources				158.3	163.1
Relationship Of Obligations To Outlays:					
Obligated Balance, Net - Beginning Of Period				(95.1)	
Obligated Balance Transferred, Net (+/-)					
Obligated Balance, Net ? End Of Period					
Accounts Receivable				(0.6)	(90.6)
Unfilled Customer Order From Federal Sources				(35.8)	

Disaggregated Statement of Budgetary Resources
Non-Budgetary Financing Accounts (Continued)

Department of Defense Year Ending September 30, 2002 ($ in millions)	Military Personnel	Military Construction/ Family Housing	Working Capital Fund	2003 Combined	2002 Combined
BUDGETARY RESOURCES					
Undelivered Orders				66.3	89.6
Accounts Payable					.7
Outlays					
Disbursements				63.6	52.0
Collections				(56.3)	(22.4)
Subtotal				7.3	29.6
Less: Offsetting Receipts					
Net Outlays	**$**	**$**	**$**	$ **7.3**	**$ 29.6**

General Property Plant and Equipment
Real Property Deferred Sustainment Tables
As of September 30, 2003 (Amount in Thousands)

Fiscal Year 2003 Annual Sustainment

The sustainment requirements are based on the Department of Defense Facilities Sustainment Model, version 3.0. The buildings, structures, and utilities include projects funded from multiple funding sources (general operations and maintenance funds, family housing operations, and working capital funds.) Additional details on the methodologies used can be found in the individual financial statements prepared by the Army (to include the Army Corps of Engineers), Navy, and Air Force. The Department continues to refine its methods for determining sustainment and restoration & modernization requirements.

Property Type	Required	Actual	Difference	Restoration Prior *(1)*	Restoration Ending *(1)*
Buildings & Structures *(2)*	$7,307,000	$5,752,000	($1,555,000)	$41,200,000	$54,900,000

Annual Deferred Sustainment Trend ($K)

Property Type	(Army Only) FY 2000	FY 2001	FY 2002	FY 2003
Buildings and Structures	($629,000)	($2,036,000)	($1,762,000)	($1,555,000)

(1) Restoration requirements are reported only for the Army and Air Force (Navy, Marine Corps, and Defense Agencies cannot be reported at this time).
(2) Buildings and structures include facilities funded from multiple funding sources (general operations and maintenance funds, family housing operations and maintenance funds, and working capital funds, for example). See the individual statements from the Military Departments regarding coverage.

As previously reported, the Department is transitioning to new methods for tracking deferred annual sustainment as well as unfunded restoration and modernization requirements. In the deferred sustainment trend table, this report adjusts earlier DoD estimates using data provided by the military departments. These estimates will be adjusted in the future as the Department implements common condition reporting standards and restoration cost estimation methodologies. Detail sustainment by reporting entities can be found below:

The Army Corps of Engineers Civil Works reported an Operation and Maintenance Backlog of $772,000,000. This amount was not included in the tables above since the DoD Facilities Sustainment Model is not applicable to a significant portion of the type of projects undertaken by the Army Corps of Engineers (e.g., navigation and flood damage reduction). Deferred maintenance at Civil Works water resources projects, operated and maintained by the U.S. Army Corps of Engineers, was determined through the budget development process whereby operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. O&M needs are based on inspections of project features, engineering analyses and historical experience.

Army Corps of Engineers Civil Works Operation & Maintenance backlog trend:

(Dollars in Millions)

FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
171	399	329	415	702	772	1,011

FY2003 Annual Sustainment

Department	Required	Actual	Difference
Army	$3,046	$2,254	($792)
Navy/MC	1,857	1,511	(346)
Air Force	2,404	1,987	(417)
Total	**$7,307**	**$5,752**	**($1,555)**

Annual Deferred Sustainment Trend

Department	FY 00	FY 01	FY02	FY03
Army	($629)	($1,167)	($913)	($792)
Navy/MC	NR	(501)	(40)	(346)
Air Force	NR	(368)	(809)	(417)
Total	**($629)**	**($2,036)**	**($1,762)**	**($1,555)**

Restoration & Modernization Requirements

Department	FY02	FY03	Change
Army	$20,200	$26,500	($6,300)
Navy/MC	NR	NR	NR
Air Force	21,000	28,400	(7,400)
Total	**$41,200**	**$54,900**	**($13,700)**

NR = Not Reported

General Property Plant and Equipment
Deferred Maintenance Military Equipment Tables
As of September 30, 2003 (Amount in Thousands)

Major Type	Amounts
Aircraft	$ 221,454
Ships	49,533
Missiles	116,625
Combat Vehicles	122,226
Other Weapon Systems	434,037
Total	**$ 943,875**

Depot maintenance requirements for military equipment are developed during the annual budget process. The depot maintenance requirements for individual items are determined by considering numerous factors. Analysis factors include: changes in the fleet size or in-use inventory; the date of last overhaul or operating hours since last overhaul; the current maintenance engineering plan expressed as a time interval or as an operational factor; and the planned operating tempo expressed in miles, flying hours, or steaming hours.

The depot maintenance cost for each major program is determined using costing models. Fiscal constraints determine requirements that are funded. The deferred maintenance numbers reported in the table above reflect the difference. The DoD Components' financial statements contain detailed information on each program.

As of September 30, 2003 ($ in Millions)	Defense Information Systems Agency	Defense Commissary Agency	Joint Logistics Systems Command	Defense Security Service	Defense Logistics Agency	Defense Finance & Accounting Services	U.S. Transportation Command	Total
PART A.								
1. Fund Balance	$ 0.0	$ 104.5	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 1,742.2	$ 1,846.7
2. Accounts Receivable	344.5	53.4	0.0	2.5	2,002.3	21.4	1,260.0	3,684.1
3. Property Plant and Equipment	294.7	22.3	118.9	36.4	1,519.7	898.8	1,140.0	4,030.8
4. Other Assets	1.6	445.4	0.0	0.2	12,384.3	0.0	80.8	12,912.3
5. TOTAL ASSETS	**$ 640.8**	**$ 625.6**	**$ 118.9**	**$ 39.1**	**$ 15,906.3**	**$ 920.2**	**$ 4,223.0**	**$ 22,473.9**
6. Liabilities Due and Payable for Goods and Services Received	$ 757.0	$ 537.2	$ 3.6	$ 56.7	$ 2,405.6	$ 201.6	$ 1,123.2	$ 5,084.9
7. Deferred Revenue	0.0	0.0	0.0	179.2	119.0	0.0	21.1	319.3
8. Other Liabilities	(4.7)	319.3	0.4	40.0	623.4	145.4	221.3	1,345.1
9. TOTAL LIABILITIES	**$ 752.3**	**$ 856.5**	**$ 4.0**	**$ 275.9**	**$ 3,148.0**	**$ 347.0**	**$ 1,365.6**	**$ 6,749.3**
10. Unexpended Appropriations	$ 0.0	$ (136.3)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (136.3)
11. Cumulative Results of Operations	(111.5)	(94.6)	114.9	(236.8)	12,758.3	573.2	2,857.4	15,860.9
12. TOTAL NET POSITION	(111.5)	(230.9)	114.9	(236.8)	12,758.3	573.2	2,857.4	15,724.6
13. TOTAL LIABILITIES & NET POSITION	**$ 640.8**	**$ 625.6**	**$ 118.9**	**$ 39.1**	**$ 15,906.3**	**$ 920.2**	**$ 4,223.0**	**$ 22,473.9**
PART B.								
1. The Full Cost of Goods and Services Provides	$ 2,627.4	$ 6,150.8	$ 0.0	$ 25,227.4	$ 369.0	$ 1,736.9	$ 8,160.1	$ 44,271.6
2. The Related Exchange Revenue	(2,733.8)	(5,070.6)	0.0	(24,002.2)	(298.8)	(1,471.4)	(8,952.0)	(42,528.8)
3. The Excess of Costs Over Exchange Revenue	**$ (106.4)**	**$ 1,080.2**	**$ 0.0**	**$ 1225.2**	**$ 70.2**	**$ 265.5**	**$ (791.9)**	**$ 1,742.8**

Amounts are net of Intra-segment eliminations.

Narrative Related to Segment Information

- Defense Information Systems Agency

  The Defense Information Systems Agency (DISA) – Is a Defense Working Capital Fund (DWCF) entity. The Defense Megacenters and the Communications Information Services Activity provide data processing, telecommunication, and information systems service and support to the Department and other federal government customers under a revolving fund concept. These funds are represented by fund symbol 97X4930. DISA's major customers are Army, Navy, Air Force, DLA, and DFAS.

- Defense Commissary Agency

  The Commissary Operations Fund finances the cost of operations for resale stores, command and region headquarters, and the operations support center. This fund also receives appropriated funds annually.

  The Commissary Resale Stock Fund finances the purchases of inventory for resale items to be sold to commissary patrons. Revenues from sales are used to replace inventory sold. The Defense Commissary Agency is one of four Department entities to get a clean audit opinion.

- Joint Logistics Systems Center

  On August 18, 1997, the Acting Under Secretary of Defense (Comptroller) approved the decision to terminate Joint Logistics Systems Center. All of its programs and responsibilities were returned to the individual components. FY 2003 is the sixth year JLSC operated as a residual activity. There was minimal financial activity during fiscal year 2003.

- Defense Security Service

  Effective October 1, 1998, Defense Security Service (DSS) was transferred from a direct appropriation to a separate activity group in the DWCF. This transfer also reflected a name change from the Defense Investigative Service to the DSS. Full implementation of the DSS as a DWCF began with FY 2000.

  The DSS was chartered to administer two major programs: Personnel Security Investigations (PSI) and National Industrial Security Programs (NISP). The mission of the PSI program is to conduct background investigations on individuals assigned to or affiliated with the Department. The purpose of the NISP is to ensure that private industry, while performing on government contracts, properly safeguards classified information in its possession. The DSS also administers the Key Asset Protection Program and the Arms, Ammunition, and Explosives Program.

- Defense Logistics Agency

  The Defense Logistics Agency (DLA) is a combat support agency responsible for worldwide logistics support throughout the DoD. The primary focus of DLA is to provide logistics support to the war fighter. In addition, DLA provides support to relief efforts during times of national emergency. DLA's major DoD customers are the Army, Navy, and Air Force. Other major federal government customers include the Department of Agriculture, and the Department of Transportation. The DLA organization has five active entity sub-organizations funded through the DWCF. These sub-organizations are referred to as activity groups and are as follows:

  The Supply Management Activity Group (Supply), appropriation symbol 97X4930.5C, helps carry out its mission by procuring, managing and supplying over three billion consumable items to Military Departments, other DoD Components, federal agencies and selected foreign governments.

  The Distribution Depot Activity Group (Distribution), appropriation symbol 97X4930.5B, receives, stores and distributes commodities, principal end items, and depot level reparables for the Military Departments, other DoD Components, federal agencies, and selected foreign governments.

  The Defense Reutilization and Marketing Service Activity Group (DRMS), appropriation symbol 97X4930.5N, provides utilization services which include receiving, classifying, segregating, demilitarizing, accounting for and reporting excess material for screening, lotting, merchandising, and sale. They also have the mission of hazardous property disposal and the economic recovery of precious metals from excess and surplus precious metal-bearing material.

  The Information Services Activity Group, appropriation symbol 97X4930.5F50, provides information management support. The mission of this information services business is to provide integrated information management support by delivering products and services of increasing quality and decreasing cost, on time and within budget.

  The Defense Automated Printing Service Activity Group (DAPS), appropriation symbol 97X4930.5G, is responsible for document automation and printing within the DoD, encompassing electronic conversion, retrieval, output, and distribution of digital and hardcopy.

- Defense Finance and Accounting Service

  Defense Finance and Accounting Service (DFAS) was created in 1991. The mission of DFAS is to provide responsive, professional finance and accounting service to the Department. DFAS has prepared the annual financial statements as required by the CFO Act and the GMRA since 1994. The DFAS is one of four Department entities to get a clean audit opinion.

- U.S. Transportation Command

  Secretary of Defense memorandum, dated February 14, 1992, prescribed the creation of a consolidated service transportation command. United States Transportation Command (USTRANSCOM) represents the single DoD financial manager for all common-user transportation. Its components include Headquarters, USTRANSCOM (HQTRANS); Military Traffic Management Command (MTMC); Military Sealift Command (MSC); Air Mobility Command (AMC); and, Defense Courier Service (DCS). The Army and Navy continue to manage their own service-unique transportation functions.

Intragovernmental Accounts

The intragovernmental amounts displayed in the following schedules, Part A, B, and C represent transactions between the Department and other federal entities.

Schedule, Part A: DoD Intragovernmental Entity Assets as of September 30, 2003 **Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities**					
(Amounts in Millions)	**Treasury Index**	**Fund Balance With Treasury**	**Accounts Receivable**	**Investments:**	**Other:**
Government Printing Office	04		0.2		
General Accounting Office	05		1.6		
Executive Office of the President	11		41.1		
Department of Agriculture	12		18.5		
Department of Commerce	13		8.1		
Department of the Interior	14		344.3		105.0
Department of Justice	15		49.8		
Department of Labor	16		7.3		
United States Postal Service	18		0.4		
Department of State	19		90.3		
Department of the Treasury	20	252,062.2	25.8	205,376.0	
Social Security Administration	28		0.2		
Federal trade Commission	29		2.8		
Nuclear Regulatory Commission	31		0.1		
Smithsonian Institution	33		1.8		
Department of Veterans Affairs	36		13.1		
General Service Administration	47		20.5		
National Science Foundation	49		26.5		
Central Intelligence Agency	56		10.0		
Federal Emergency Management Agency	58		21.6		
Tennessee Valley Authority	64		0.1		
Environmental Protection Agency	68		29.9		
Department of Transportation	69		165.2		
Homeland Security	70		17.6		
Agency for International Development	72		10.6		
Department of Health and Human Services	75		35.1		
Independent Agencies	76		1.4		
National Aeronautics and Space Administration	80		41.4		
Armed Forces Retirement Home	84		0.5		
Department of Housing and Urban Development	86		12.9		
Department of Energy	89		27.4		
Selective Service System	90		7.9		
Department of Education	91		1.8		
Independent Agencies	95		23.2		
The General Fund of the Treasury	99		7.4		
Total		$252,062.2	$1,066.4	$205,376.0	$105.0

Schedule, Part B: DoD Intragovernmental Entity Liabilities as of September 30, 2003

Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities

(Amounts in Millions)	Treasury Index	Accounts Payable:	Debts/Borrowings From Other Agencies:	Other:
Library of Congress	03	$0.1		
Government Printing Office	04	0.2		
The Judiciary	10	0.1		
Executive Office of the President	11			$25.8
Department of Agriculture	12	1.3		3.8
Department of Commerce	13	4.0		3.4
Department of the Interior	14	17.5		3.6
Department of Justice	15	0.9		26.7
Department of Labor	16			1,583.8
United States Postal Service	18	0.2		10.1
Department of State	19	0.8		3.7
Department of the Treasury	20	1.3	$698.2	3,053.4
Office of Personnel Management	24	5.8		302.6
Social Security Administration	28			0.3
Nuclear Regulatory Commission	31			0.1
Smithsonian Institution	33			1.4
Department of Veterans Affairs	36	0.8		0.3
General Service Administration	47	53.3		1.0
National Science Foundation	49	0.2		19.1
Federal Emergency Management Agency	58			0.3
National Foundation on the Arts and Humanities	59			0.2
Tennessee Valley Authority	64	2.7		
Environmental Protection Agency	68	0.5		1.7
Department of Transportation	69	0.7		11.1
Homeland Security	70	0.2		8.9
Agency for International Development	72			0.3
Department of Health and Human Services	75	0.8		25.5
National Aeronautics and Space Administration	80	0.1		22.3
Department of Housing and Urban Development	86			3.0
Department of Energy	89	2.9		89.4
Department of Education	91			6.1
Independent Agencies	95			0.4
The General Fund of the Treasury	99	7.4		4,530.6
Total		$101.8	$698.2	$9,738.9

Schedule, Part C: DoD Intragovernmental Revenues as of September 30, 2003

Balances reflect amounts on the books of DoD Components in regard to transactions with other federal entities

(Amounts in Millions)	Treasury Index	Earned Revenue
Government Printing Office	04	$1.1
General Accounting Office	05	0.9
Executive Office of the President	11	142.1
Department of Agriculture	12	99.1
Department of Commerce	13	42.2
Department of the Interior	14	67.8
Department of Justice	15	309.7
Department of Labor	16	13.3
United States Postal Service	18	5.9
Department of State	19	148.7
Department of the Treasury	20	10,439.2
Office of Personnel Management	24	0.3
Social Security Administration	28	3.4
Nuclear Regulatory Commission	31	1.9
Smithsonian Institution	33	5.0
International Trade Commission	34	0.1
Department of Veterans Affairs	36	48.9
General Service Administration	47	56.3
National Science Foundation	49	93.6
Central Intelligence Agency	56	1.8
Federal Emergency Management Agency	58	85.2
National Foundation on the Arts and Humanities	59	0.2
Consumer Product Safety Commission	61	0.2
Tennessee Valley Authority	64	0.2
United States Information Agency	67	(0.1)
Environmental Protection Agency	68	130.7
Department of Transportation	69	876.9
Homeland Security	70	132.7
Agency for International Development	72	36.8
Department of Health and Human Services	75	152.3
Independent Agencies	76	18.1
National Aeronautics and Space Administration	80	331.7
Armed Forces Retirement Home	84	1.7
Department of Housing and Urban Development	86	8.2
Department of Energy	89	110.6
Selective Service System	90	3.6
Department of Education	91	2.6
Independent Agencies	95	69.3
The General Fund of the Treasury	99	(11.7)
Total		$13,430.5

Schedule, Part D: DoD Agency-wide Intragovernmental Gross as of September 30, 2003		
(Amounts in Millions)	**Budget Function Code**	**Gross Cost**
Department of Defense Military	051	$10,728.5
Water Resources by U.S. Army Corps of	301	758.5
Pollution Control and Abatement by U.S. Army Corps of Engineers	304	2.4
Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits	702	258.8
Total		$11,748.2

Schedule, Part E: DoD Intragovernmental Nonexchange Revenues as of September 30, 2003			
(Amounts in Millions)	**Treasury Index**	**Revenue Transfers-in**	**Revenue Transfers-out**
Executive Office of the President	11	$466.0	
Department of the Interior	14	56.9	56.6
Department of the Treasury	20	833.3	10.0
General Service Administration	47		0.3
Tennessee Valley Authority	64		0.1
Department of Energy	89	0.6	
The General Fund of the Treasury	99	670.5	687.4
Total		$2,027.3	$754.4

Other Accompanying Information

Department of Defense – Appropriations, Funds, and Accounts

Department of the Army:

21*0390	Chemical Agents and Munitions Destruction, Army
21X0810	Environmental Restoration
21*7020	Family Housing, Army Construction
21*7025	Operation & Maintenance, Family Housing
21X1705	National Board for the Promotion of Rifle Practice, Army
21X1805	Salaries and Expenses, Cemeterial Expenses, Army
21*2010	Military Personnel, Army
21*2020	Operation and Maintenance, Army
21*2031	Aircraft Procurement, Army
21*2032	Missile Procurement, Army
21*2033	Procurement of Weapons and Tracked Combat Vehicles, Army
21*2034	Procurement of Ammunition, Army
21*2035	Other Procurement, Army
21*2040	Research, Development, Test, and Evaluation, Army
21*2050	Military Construction, Army
21*2060	National Guard Personnel, Army
21*2065	Operation and Maintenance, Army National Guard
21*2070	Reserve Personnel, Army
21*2080	Operation and Maintenance, Army Reserve
21*2085	Military Construction, Army National Guard
21*2086	Military Construction, Army Reserve
21X4275	Arms Initiative Guaranteed Loan Financing
21X4528	Working Capital Fund, Army Conventional Ammunition
21X5095	Wildlife Conservation, etc., Military Reservations, Army
21X5098	Restoration, Rocky Mountain Arsenal, Army
21X5194	Department of Defense (DoD), 50th Anniversary of World War II Commemoration Account, Army
21X5285	DoD, Forest Products Program, Army
21X5286	National Science Center, Army
21X8063	Bequest of Major General Fred C. Ainsworth Library, Walter Reed Army Medical Center
21X8927	Department of the Army General Gift Fund
21*6xxx	(Nonentity) Deposit Fund Accounts

Department of the Navy:

17X0380	Coastal Defense Augmentation, Navy
17*0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17*1105	Military Personnel, Marine Corps
17*1106	Operation and Maintenance, Marine Corps
17*1107	Operation and Maintenance, Marine Corps Reserve
17*1108	Reserve Personnel, Marine Corps
17*1109	Procurement, Marine Corps
17*1205	Military Construction, Navy
17*1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho'Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17*1319	Research, Development, Test, and Evaluation, Navy
17*1405	Reserve Personnel, Navy
17*1453	Military Personnel, Navy
17*1506	Aircraft Procurement, Navy
17*1507	Weapons Procurement, Navy
17*1508	Procurement of Ammunition, Navy and Marine Corps
17*1611	Shipbuilding and Conversion, Navy
17*1804	Operation and Maintenance, Navy
17*1806	Operation and Maintenance, Navy Reserve
17*1810	Other Procurement, Navy
17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts , Defense Military, Not Otherwise Classified
17*4557	National Defense Sealift Fund, Navy
17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	KahoOlawe Island Conveyance, Remediation and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account
17X8423	Midshipmen's Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ships Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund
17*6xxx	(Nonentity) Deposit Fund Accounts

Department of the Air Force:

57*0704	Family Housing, Air Force
57*0810	Environmental Restoration, Air Force
57X1999	Unclassified Receipts and Expenditures, Air Force
57*3010	Aircraft Procurement, Air Force
57*3011	Procurement of Ammunition, Air Force
57*3020	Missile Procurement, Air Force
57*3080	Other Procurement, Air Force
57*3300	Military Construction, Air Force
57*3400	Operation and Maintenance, Air Force
57*3500	Military Personnel, Air Force
57*3600	Research, Development, Test, and Evaluation, Air Force
57*3700	Reserve Personnel, Air Force
57*3730	Military Construction, Air Force Reserve
57*3740	Operation and Maintenance, Air Force Reserve
57*3830	Military Construction, Air National Guard
57*3840	Operation and Maintenance, Air National Guard
57*3850	National Guard Personnel, Air Force
57X5095	Wildlife Conservation, etc., Military Reservations, Air Force
57*6xxx	(Nonentity) Deposit Fund Accounts
57X8418	Air Force Cadet Fund
57X8928	Department of the Air Force General Gift Fund

Department of Defense Working Capital Funds:

97X8097	DoD Military Retirement Fund
97X4930.001	Army Working Capital Fund (WCF)
97X4930.002	Navy WCF
97X4930.003	Air Force WCF
97X4930.005	U.S. Transportation Command (USTRANSCOM) WCF
97X4930.004	Defense Commissary Agency WCF
97X4930.005	Defense Logistics Agency WCF
97X4930.005	Defense Finance and Accounting Service WCF
97X4930.005	Joint Logistics Systems Center WCF
97X4930.005	Management Systems Support Office/Corporate Information Management
97X4930.005	Defense Information Systems Agency WCF
97X4930.005	Defense Technical Information Services Center
97X4930.005	Defense Security Services WCF
97X4930.005	Headquarters Account
97X4930.005	Component Level Adjustment

Note: The USTRANSCOM WCF is included in Other Defense Organizations WCF for financial statement purposes.

Other Defense Organizations:

11X8242	Foreign Military Sales Trust Fund (Cost clearing accounts only)
97*0040	Payments to Military Retirement Fund, Defense
97X0100	Operation and Maintenance, Defense-Wide
97*0100	Operation and Maintenance, Defense-Wide
97*0101	Contingencies, Defense
97*0102	Claims, Defense
97*0103	Base Realignment and Closure Account, Part I, Defense
97*0104	Court of Military Appeals, Defense
97*0105	Drug Interdiction and Counter-Drug Activities, Defense
97*0106	Goodwill Games, Defense
97*0107	Office of the Inspector General
97*0108	Emergency Expenses, Defense Account
97X0110	Persian Gulf Regional Defense Fund, Defense
97*0115	Corporate Information Management (Business Process Reengineering)
97*0116	Summer Olympics, Defense
97*0118	Overseas Contingency Operations Fund
97X0118	Overseas Contingency Operations Fund
97*0130	Defense Health Program, Defense
97*0131	Real Property Maintenance, Defense
97X0132	Claims, Mount Pinatubo, Defense
97*0132	Claims, Mount Pinatubo, Defense
97*0133	Payment to Coast Guard, Defense
97X0134	Former Soviet Union Threat Reduction, Defense
97*0135	Military Training, Equipment and Associated Support Transfer Fund, Defense
97*0136	Depot level Maintenance and Repair Transfer Fund, Defense
97*0137	Spares, Repairs and Associated Logistical Support Transfer Fund, Defense
97*0138	New Horizons Exercise Transfer Fund, Defense
97*0139	Operational Rapid Response Transfer Fund, Defense
97*0140	Military Construction Transfer Fund, Defense
97*0300	Procurement, Defense-Wide
97*0350	National Guard and Reserve Equipment, Defense
97X0360	Defense Production Act Purchases, Defense
97*0360	Defense Production Act Purchases, Defense
97*0370	North Atlantic Treaty Organization Cooperative Defense Fund
97X0390	Chemical Agents and Munitions Destruction, Defense
97*0390	Chemical Agents and Munitions Destruction, Defense
97X0400	Research, Development, Test, and Evaluation, Defense-Wide
97*0400	Research, Development, Test, and Evaluation, Defense-Wide
97*0450	Developmental Test and Evaluation, Defense
97*0460	Operational Test and Evaluation, Defense
97*0500	Military Construction, Defense-Wide
97X0510	Base Realignment and Closure Account, Part II, Defense
97*0706	Family Housing, Defense-Wide
97*0800	Special Foreign Currency Program, Defense

Other Defense Organizations (Continued):

97X0801	Foreign Currency Fluctuations, Defense
97X0803	Foreign Currency Fluctuation, Construction, Defense
97X0804	North Atlantic Treaty Organization Investment Programs Defense
97X0810	Environmental Restoration, Defense
97X0819	Humanitarian Assistance, Defense
97*0819	Humanitarian Assistance, Defense
97*0827	World University Games, Defense
97*0828	Defense Reinvestment for Economic Growth, Defense
97*0829	World Cup USA, Defense
97*0832	Special Olympics - World Games
97*0834	DoD Family Housing Improvement Fund
97X8035	Defense Export Loan Guarantee Program Account
97X8036	DoD Military Unaccompanied Housing Improvement Program
97X8038	Support for International Sporting Competitions, Defense
97*0839	Quality of Life Enhancement, Defense
97*0840	OPLAN 34A-35 P.O.W. Payment
97*3296	Pinatubo Disaster Relief Fund
97X3910	ADP Equipment Management Fund, Defense
97X4090	Homeowners Assistance Fund, Defense
97*4090	Homeowners Assistance Fund, Defense
97X4093	William Langer Jewel Bearing Plant Revolving Fund, Defense
97*4166	Family Housing Improvement Fund, Direct Loan Financing Account
97*4167	Family Housing Improvement Fund, Guaranteed Loan Financing Account
97*4168	Defense Expense Loan Guarantee Financing Program
97*4179	Reserve Mobilization Fund
97X4555	National Defense Stockpile Transaction Fund, Defense
97X4931	Buildings Maintenance Fund
97X4950	Pentagon Reservation Maintenance Revolving Fund
97X4965	Emergency Response Fund, Defense
97X5187	Defense Cooperation Account, Defense
97X5188	Disposal of Department of Defense Real Property
97X5189	Lease of DoD Real Property
97X5193	DoD Overseas Military Facility Investment Recovery Account
97X5195	Use of Proceeds from the Transfer or Disposition of Commissary Facilities, Defense
97X5196	Theater Missile Defense Cooperation Account, Defense
97X8098	DoD, Education Benefits Fund
97*8164	Surcharge Collections, Sales of Commissary Stores

Other Defense Organizations (Continued):

97X8165	Foreign National Employees Separation Pay Account, Defense
97X8168	National Security Education Trust Fund
97*8238	Kuwait Civil Reconstruction Trust Fund
97X8311	Uniformed Services University of the Health Sciences Gift Fund
97X8335	Voluntary Separation Incentive Trust Fund
97X8337	Host Nation Support for U.S. Relocation Activities, Defense
97*6xxx	(Nonentity) Deposit Fund Accounts

U.S. Army Corps of Engineers:

96*1039	Construction, National Parks Service
96*1105	State and Private Forestry, Forest Service
96*2020	Manu'a Islands, Department of Army
96*2050	Levee Restoration Program, Economic Development Administration
96X3112	Flood Control, Mississippi River and Tributaries, Corps of Engineers, Civil
96X3121	General Investigations, Corps of Engineers, Civil
96X3122	Construction, General, Corps of Engineers, Civil
96X3123	Operation and Maintenance, General, Corps of Engineers, Civil
96*3123	Operation and Maintenance, General, Corps of Engineers, Civil
96X3124	General Expenses, Corps of Engineers, Civil
96*3124	General Expenses, Corps of Engineers, Civil
96X3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil
96*3125	Flood Control and Coastal Emergencies, Corps of Engineers, Civil
96X3126	General Regulator Functions, Corps of Engineers, Civil
96X3128	Washington Aqueduct Capital Improvements, Corps of Engineers (Borrowing Authority)
96*3129	Payments to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X3130	Formerly Utilized Sites Remedial Action Program (FUSRAP)
96*4045	Bonneville Power Administration
96X4902	Revolving Fund, Corps of Engineers, Civil
96X5007	Special Recreation Use Fees, Corps of Engineers, Civil
96X5066	Hydraulic Mining in California, Debris Fund
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5483	San Gabriel Basin Restoration Fund
96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds, Corps of Engineers, Civil
96X8863	Harbor Maintenance Trust Fund
96X8868	Oil Spill Research, Corps of Engineers, Civil Nonentity Funds:
96*6xxx	(Nonentity) Deposit Fund Accounts
96 12X1105	State and Private Forestry, Forest Service

U.S. Army Corps of Engineers (Continued):

96 13X2050	Economic Development Administration
96 14X1039	Construction National Park Service
96 21X2020	Operation and Maintenance, Army, American Samoa Projects
96 89X4045	Bonneville Power Administration
96 72*1021	Development Assistance, Agency for International Development
96 69X8083	Federal Aid Highways

Note: The USACE is executive agency for the Inland Waterways Trust Fund and the Harbor Maintenance Trust Fund.

The following are applicable to multiple DoD Reporting Entities:

F3875	Budget Clearing Account (Suspense)
F3878	Budget Clearing Account (Deposits)
F3879	Undistributed Letter of Credit Differences
F3880	Unavailable Check Cancellations and Overpayments
F3885	Undistributed Intragovernmental Payments
F3886	Civilian Thrift Savings Plan

NOTE: Appropriations shown with an asterisk (*) in the third position of the appropriation symbol indicates the appropriation may be single-year, multi-year or no-year.

NOTE: Appropriations shown with an (X) in the third position of the appropriation symbol indicates the appropriation is a "no-year" appropriation.

Funds Appropriated to the President
Administered by the Department of Defense

BALANCE SHEET **As of September 30, 2003** **($ in Thousands)**		International Military Education and Training 11*1081		Foreign Military Financing Program Grants 11*1082		Military Debt Reduction Financing 11X4174
ASSETS						
Fund Balance With Treasury	$	64,341	$	2,484,056	$	2,732
Accounts Receivable						
Other Assets						
Loans Receivable						564,963
Inventory and Related Property, Net						
Other Assets						
Total Assets	**$**	**64,341**	**$**	**2,484,056**	**$**	**567,695**
LIABILITIES						
Debt	$		$		$	221,650
Other Liabilities						
Accounts Payable		22,607		636		
Other Liabilities						
Total Liabilities	**$**	**22,607**	**$**	**636**	**$**	**221,650**
NET POSITION						
Unexpended Appropriations	$	41,734	$	2,487,492	$	
Cumulative Results of Operations				(4,072)		346,045
Total Net Position	**$**	**41,734**	**$**	**2,483,420**	**$**	**346,045**
Total Liabilities and Net Position	**$**	**64,341**	**$**	**2,484,056**	**$**	**567,695**

Funds Appropriated to the President
Administered by the Department of Defense

BALANCE SHEET As of September 30, 2003 ($ in Thousands)		Special Defense Acquisition Fund 11X4116		Foreign Military Loan Liquidating Account 11X4121		Foreign Mil Financing, Direct Loan Financing 11X4122
ASSETS						
Fund Balance With Treasury	$	26,749	$		$	45,085
Accounts Receivable						
Other Assets						
Loans Receivable				3,569,964		1,685,291
Inventory and Related Property, Net						
Other Assets		(139,714)				
Total Assets	**$**	**(112,965)**	**$**	**3,569,964**	**$**	**1,730,376**
LIABILITIES						
Debt	$		$	4,116,219	$	1,345,679
Accounts Payable		1,296				
Other Liabilities		(50,312)				266,790
Total Liabilities	**$**	**(49,016)**	**$**	**4,116,219**	**$**	**1,612,469**
NET POSITION						
Unexpended Appropriations	$		$		$	
Cumulative Results of Operations		(63,949)		(546,255)		117,907
Total Net Position	**$**	**(63,949)**	**$**	**(546,255)**	**$**	**117,907**
Total Liabilities and Net Position	**$**	**(112,965)**	**$**	**3,569,964**	**$**	**1,730,376**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF NET COST **As of September 30, 2003** **($ in Thousands)**	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Program Costs:			
Intragovernmental Gross Cost	$	$	$ 10,924
Less: Intragovernmental Earned Revenue			
Intragovernmental Net Costs			10,294
Gross Costs With the Public	77,088	5,753,072	
Less: Earned Revenues From The Public			(352,422)
Net Cost With the Public	**$ 77,088**	**$ 5,753,072**	**$ (352,422)**
Total Net Costs	**$ 77,088**	**$ 5,753,072**	**$ (341,498)**
Costs not Assigned to Programs			
Less: Earned Revenues not Attributable to Programs			
Net Cost of Operations	**$ 77,088**	**$ 5,753,072**	**$ (341,498)**

STATEMENT OF NET COST **As of September 30, 2003** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Program Costs			
Intragovernmental Gross Cost	$	$ 737,695	$ 115,849
Less: Intragovernmental Earned Revenue	(51,827)		(160,433)
Intragovernmental Net Costs	**$ (51,827)**	**$ 737,695**	**$ (44,584)**
Gross Costs With the Public	36,968		(292,681)
Less: Earned Revenues From The Public	**$**	**$ (67,581)**	**$**
Net Cost With the Public	**$ 36,968**	**$ (67,581)**	**$ (292,681)**
Total Net Costs	**$ (14,859)**	**$ 670,114**	**$ (337,265)**
Costs not Assigned to Programs			
Less: Earned Revenues not Attributable to Programs	**$**	**$**	**$**
Net Cost of Operations	**(14,859)**	**670,114**	**(337,265)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION As of September 30, 2003 ($ in Thousands)	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Cumulative Results of Operations			
Beginning Balance	$ 0	$ 666	$ 4,546
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 0**	**$ 666**	**$ 4,546**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used	77,088	5,748,334	
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ 77,088**	**$ 5,748,334**	**$ 0**
Net Cost of Operations (+/-)	**$ 77,088**	**$ 5,753,072**	**$ (341,498)**
Ending Balances	**$ 0**	**$ (4,072)**	**$ 346,044**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Cumulative Results of Operations			
Beginning Balance	$ (68,808)	$ 0	$ 47,432
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ (68,808)**	**$ 0**	**$ 47,432**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used			
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			(266,790)
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)	(10,000)		
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ (10,000)**	**$ 0**	**$ (266,790)**
Net Cost of Operations (+/-)	**$ (14,859)**	**$ 670,114**	**$ (337,265)**
Ending Balances	**$ (63,949)**	**$ (670,114)**	**$ 117,907**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION As of September 30, 2003 ($ in Thousands)	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Unexpended Appropriations			
Beginning Balance	$ 46,606	$ 4,833,594	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 46,606**	**$ 4,833,594**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 80,000	$ 6,131,100	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)	(7,784)	(23,851)	
Appropriations Used	(77,088)	(8,453,351)	
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ (4,872)**	**$ (2,346,102)**	**$ 0**
Net Cost of Operations (+/-)	**$ 0**	**$ 0**	**$ 0**
Ending Balances	**$ 41,734**	**$ 2,487,492**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF CHANGES IN NET POSITION As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Unexpended Appropriations			
Beginning Balance	$ 0	$ 0	$ 0
Prior Period Adjustments (+/-)			
Beginning Balance, as adjusted	**$ 0**	**$ 0**	**$ 0**
Budgetary Financing Sources			
Appropriation Received	$ 0	$ 0	$ 0
Appropriations Transferred in/out (+/-)			
Other Adjustments (rescissions, etc) (+/-)			
Appropriations Used			
Nonexchanged Revenue			
Donations and Forfeitures of Cash and Cash Equivalents			
Transfers in/out Without Reimbursement (+/-)			
Other Budgetary Financing Sources (+/-)			
Other Financing Sources:			
Donations and forfeitures of property	$ 0	$ 0	$ 0
Transfers-in/out without reimbursement (+/-)			
Imputed financing from costs absorbed by others			
Other (+/-)			
Total Financing Sources	**$ 0**	**$ 0**	**$ 0**
Net Cost of Operations (+/-)	**$ 0**	**$ 0**	**$ 0**
Ending Balances	**$ 0**	**$ 0**	**$ 0**
Less: Offsetting Receipts	0	0	0
Net Outlays	**0**	**0**	**0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 80,000	$ 6,131,100	$
Borrowing Authority			212,636
Contract Authority			
Net Transfers (+/-)	677	(113,000)	
Other			
Unobligated Balance			
Beginning Of Period	4,968	308,060	0
Net Transfers, Actual (+/-)	(677)		
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned	0	0	
Collected			14,760
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	$ 14,760
Recoveries Of Prior Year Obligations	9,716	229	
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available	(5,028)	(26,657)	(1,352)
Total Budgetary Resources	**$ 89,656**	**$ 6,299,732**	**$ 226,044**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 84,907	$ 6,299,293	$ 223,315
Reimbursable			
Subtotal	**$ 84,907**	**$ 6,299,293**	**$ 223,315**
Unobligated Balance			
Apportioned	815	2	2,729
Exempt From Apportionment			
Other Available		1	
Unobligated Balances Not Available	3,934	436	
Total, Status of Budgetary Resources	**$ 89,656**	**$ 6,299,732**	**$ 226,044**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 54,737	$ 1,934,260	$ 51
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders	36,985	2,482,982	
Accounts Payable	22,607	636	3
Outlays			
Disbursements	70,335	5,749,706	223,363
Collections			(14,760)
Subtotal	**$ 70,335**	**$ 5,749,706**	**$ 208,603**
Less: Offsetting Receipts			
Net Outlays	**$ 70,335**	**$ 5,749,706**	**$ 208,603**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 0	$ 0
Borrowing Authority			
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period			
Net Transfers, Actual (+/-)			
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected			
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Recoveries Of Prior Year Obligations			
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available			
Total Budgetary Resources	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	International Military Education and Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 0	$ 0	$ 0
Reimbursable			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Unobligated Balance			
Apportioned	$ 0	$ 0	$ 0
Exempt From Apportionment			
Other Available			
Unobligated Balances Not Available			
Total, Status of Budgetary Resources	**$ 0**	**$ 0**	**$ 0**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 0	$ 0	$ 0
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders			
Accounts Payable			
Outlays			
Disbursements			
Collections			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Less: Offsetting Receipts			
Net Outlays	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 25,500	$
Borrowing Authority			3,258,451
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period	$ 30,052	$ 0	$ 0
Net Transfers, Actual (+/-)	(10,000)		
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected	$ (143)	$ 650,380	$ 758,396
Receivable From Federal Sources			(25,238)
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ (143)**	**$ 650,380**	**$ 733,158**
Recoveries Of Prior Year Obligations	3,966		
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available		(643,308)	(447,633)
Total Budgetary Resources	**$ 23,785**	**$ 32,571**	**$ 4,439,242**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 161	$ 32,571	$ 4,394,157
Reimbursable			
Subtotal	**$ 161**	**$ 32,571**	**$ 4,394,157**
Unobligated Balance			
Apportioned	$	$ 0	$ 45,085
Exempt From Apportionment			
Other Available			
Unobligated Balances Not Available	23,714		
Total, Status of Budgetary Resources	**$ 23,875**	**$ 32,571**	**$ 4,439,242**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 8,251	$ 0	$ 82,173
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders	3,035		3,710,700
Accounts Payable			
Outlays			
Disbursements	$ 1,410	$ 32,571	$ 790,868
Collections	143	(650,380)	(758,396)
Subtotal	**$ 1,553**	**$ (617,809)**	**$ (32,472)**
Less: Offsetting Receipts			
Net Outlays	**$ 1,553**	**$ (617,809)**	**$ (32,472)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES **As of September 30, 2003** **($ in Thousands)**	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 0	$ 0	$ 0
Borrowing Authority			
Contract Authority			
Net Transfers (+/-)			
Other			
Unobligated Balance			
Beginning Of Period	$ 0	$ 0	$ 0
Net Transfers, Actual (+/-)			
Anticipated Transfers Balances			
Spending Authority From Offsetting Collections			
Earned			
Collected	$ 0	$ 0	$ 0
Receivable From Federal Sources			
Change In Unfilled Customer Orders			
Advance Received			
Without Advance From Federal Sources			
Anticipated For The Rest Of Year, Without Advances			
Transfers From Trust Funds			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Recoveries Of Prior Year Obligations			
Temporarily Not Available Pursuant To Public Law			
Permanently Not Available			
Total Budgetary Resources	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF BUDGETARY RESOURCES As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 0	$ 0	$ 0
Reimbursable			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Unobligated Balance			
Apportioned	$ 0	$ 0	$ 0
Exempt From Apportionment			
Other Available			
Unobligated Balances Not Available			
Total, Status of Budgetary Resources	**$ 0**	**$ 0**	**$ 0**
Relationship of Obligations to Outlays			
Obligated Balance, Net - Beginning Of Period	$ 0	$ 0	$ 0
Obligated Balance Transferred, Net (+/-)			
Obligated Balance, Net - End Of Period:			
Accounts Receivable			
Unfilled Customer Order From Federal Sources			
Undelivered Orders			
Accounts Payable			
Outlays			
Disbursements	**$** 0	**$ 0**	**$ 0**
Collections			
Subtotal	**$ 0**	**$ 0**	**$ 0**
Less: Offsetting Receipts			
Net Outlays	**$ 0**	**$ 0**	**$ 0**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING As of September 30, 2003 ($ in Thousands)	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations Incurred	$ 84,907	$ 6,299,293	$ 223,315
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(9,716)	(229)	(14,760)
Obligations Net Of Offsetting Collections And Recoveries	$ 75,191	$ 6,299,064	$ 208,555
Less: Offsetting Receipts (-)	0	0	0
Net Obligations	**$ 75,191**	**$ 6,299,064**	**$ 208,555**
Other Resources			
Donations And Forfeitures Of Property	$	$	$
Transfers In/Out Without Reimbursement (+/-)			
Imputed Financing From Costs Absorbed By Others			
Other (+/-)	(15,854)	2,730	(550,105)
Net Other Resources Used To Finance Activities	**(15,854)**	**2,730**	**(550,105)**
Total Resources Used To Finance Activities	**$ 59,337**	**$ 6,301 ,794**	**$ (341,550)**
Resources Used To Finance Items Not Part Of The Net Cost Of Operations			
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided			
Undelivered Orders (-)	$ 1,883	$ (548,992)	$ 51
Unfilled Customer Orders			
Resources That Fund Expenses Recognized In Prior Periods			
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations			
Resources That Finance The Acquisition Of Assets			
Other Resources Or Adjustments To Net Obligated Resources That Do Not Affect Net Cost Of Operations			
Less: Trust Or Special Fund Receipts Related To Exchange In The Entity's Budget (-)			
Other (+/-)			
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ 1,883**	**$ (548,992)**	**$ 51**
Total Resources Used To Finance The Net Cost Of Operations	**$ 61,220**	**$ 5,752,802**	**$ (341,499)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING **As of September 30, 2003** **($ in Thousands)**	International Military Education And Training 11*1081	Foreign Military Financing Program Grants 11*1082	Military Debt Reduction Financing 11X4174
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 0	$ 0	$ 0
Increase In Environmental And Disposal Liability			
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)			
Increase In Exchange Revenue Receivable From The Public (-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 0**	**$ 0**	**$ 0**
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	$ 0	$ 0	$ 0
Revaluation Of Assets Or Liabilities (+/-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 0**	**$ 0**	**$ 0**
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 0**	**$ 0**	**$ 0**
Net Cost Of Operations	**$ 61,220**	**$ 5,752,802**	**$ (341,499)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Resources Used to Finance Activities			
Budgetary Resources Obligated			
Obligations Incurred	$ 161	$ 32,571	$ 4,394,157
Less: Spending Authority From Offsetting Collections And Recoveries (-)	(3,823)	(650,380)	(733,158)
Obligations Net Of Offsetting Collections And Recoveries	$ (3,662)	$ (617,809)	$ 3,660,999
Less: Offsetting Receipts (-)	0	0	0
Net Obligations	**$ (3,662)**	**$ (617,809)**	**$ 3,660,999**
Other Resources			
Donations And Forfeitures Of Property	$		
Transfers In/Out Without Reimbursement (+/-)	(10,000)		(266,790)
Imputed Financing From Costs Absorbed By Others			
Other (+/-)	(6,412)	617,122	(102,947)
Net Other Resources Used To Finance Activities	(16,412)	617,122	(369,737)
Total Resources Used To Finance Activities	**$ (20,074)**	**$ (687)**	**$ 3,291,262**
Resources Used To Finance Items Not Part Of The Net Cost Of Operations			
Change In Budgetary Resources Obligated For Goods, Services And Benefits Ordered But Not Yet Provided			
Undelivered Orders (-)	$ 5,216	$ 0	$ (3,636,130)
Unfilled Customer Orders			
Resources That Fund Expenses Recognized In Prior Periods			
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost Of Operations			
Resources That Finance The Acquisition Of Assets		(32,571)	
Other Resources Or Adjustments To Net Obligated Resources Not Affecting Net Cost Of Operations			
Less: Trust Or Special Fund Receipts Related To Exchange In The Entity's Budget (-)			
Other (+/-)			
Total Resources Used To Finance Items Not Part Of The Net Cost Of Operations	**$ 5,216**	**$ (32,571)**	**$ (3,636,130)**
Total Resources Used To Finance The Net Cost Of Operations	**$ (14,858)**	**$ (33,258)**	**$ (344,868)**

Funds Appropriated to the President
Administered by the Department of Defense

STATEMENT OF FINANCING As of September 30, 2003 ($ in Thousands)	Special Defense Acquisition Fund 11X4116	Foreign Military Loan Liquidating Account 11X4121	Foreign Military Financing, Direct Loan Financing 11X4122
Components Of The Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period			
Components Requiring Or Generating Resources In Future Periods			
Increase In Annual Leave Liability	$ 0	$ 0	$ 0
Increase In Environmental And Disposal Liability			
Upward/Downward Reestimates Of Credit Subsidy Expense (+/-)			
Increase In Exchange Revenue Receivable From The Public (-)			
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Require Or Generate Resources In Future Periods	**$ 0**	**$ 0**	**$ 0**
Components Not Requiring Or Generating Resources			
Depreciation And Amortization	$ 0	$ 0	$ 0
Revaluation Of Assets Or Liabilities (+/-)		579,513	
Other (+/-)			
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources	**$ 0**	**$ 573,513**	**$ 0**
Total Components Of Net Cost Of Operations That Will Not Require Or Generate Resources In The Current Period	**$ 0**	**$ 579,513**	**$ 0**
Net Cost Of Operations	**$ (14,858)**	**$ 546,255**	**$ (344,868)**

Independent Auditors' Report on the Principal Statements

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

December 10, 2003

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER

SUBJECT: Independent Auditor's Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements (Report No. D-2004-036)

The Chief Financial Officers (CFO) Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying DoD Consolidated Balance Sheet as of September 30, 2003 and 2002, the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Combined Statement of Financing, and the Statement of Custodial Activity for the fiscal years then ended. The financial statements are the responsibility of DoD management. DoD is also responsible for implementing effective internal control and for complying with laws and regulations. In addition to our disclaimer of opinion on the financial statements, we are including the required reports on internal control and compliance with laws and regulations.

Disclaimer of Opinion on the Financial Statements

The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged to us that (1) DoD financial management systems do not substantially comply with Federal financial management systems requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level and (2) DoD financial management and feeder systems cannot provide adequate evidence to support various material amounts on the financial statements. Therefore, we did not perform auditing procedures to determine if material amounts on the financial statements were fairly presented. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only the audit procedures required by generally accepted government auditing standards that are consistent with representations made by DoD management.[1] DoD has also acknowledged, and prior audits have identified, the material weaknesses listed in the Summary of Internal Control. These material weaknesses also affect the reliability of other information contained in the annual financial statements, much of which is taken from the same data sources as the principal financial statements.[2] These deficiencies would have precluded an audit

[1] We performed audit work on the U.S. Army Corps of Engineers account balances during FY 2003 because management asserted that their financial statements were ready for audit. In addition, we performed audit work on the DoD Environmental Liability account balance because management asserted that the account balance was ready for audit.

[2] The annual financial statements include the principal financial statements, management discussion and analysis, consolidating and combining financial statements, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States, Article I, Section 9

opinion. Therefore, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.

Summary of Internal Control

In planning our audit, we considered DoD internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions,[3] all of which are material, continued to exist in the following areas:

- financial management systems;
- Fund Balance with Treasury;
- Inventory;
- Operating Materials and Supplies;
- Property, Plant, and Equipment (PP&E);
- Government-Furnished Material and Contractor-Acquired Material;
- Environmental Liabilities;
- intragovernmental eliminations and other accounting entries;
- Statement of Net Cost; and
- Statement of Financing.

A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

Summary of Compliance with Laws and Regulations

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because management acknowledged, and prior audits confirm, that instances of noncompliance continue to exist. The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged to us that DoD financial management systems do not comply substantially with Federal financial management system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level.

[3] Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in financial statements.

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States, Article I, Section 9

Our work supports DoD conclusions and confirms that uncorrected instances of noncompliance continue to exist related to other provisions of laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial management systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing a DoD-wide Business Enterprise Architecture. It is unlikely that DoD will be able to fully comply with the statutory reporting requirements until the architecture is fully developed and implemented. See the Attachment for additional details on compliance with laws and regulations.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not have been sufficient for other purposes. Our objective was not to express an opinion on noncompliance with applicable laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of section 3512, title 31, United States Code, which incorporates the reporting requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, are met;
- ensuring that DoD financial management systems substantially comply with Federal Financial Management Improvement Act (FFMIA) of 1996 requirements; and
- complying with applicable laws and regulations.

Paul J. Granetto

Paul J. Granetto, CPA
Director
Defense Financial Auditing
Service

Attachment
As stated

A regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time. —Constitution of the United States, Article I, Section 9

Reports on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are recorded and reported properly; and that assets are safeguarded. We did not perform tests of DoD internal control over financial reporting and we did not obtain sufficient evidence to support or express an opinion on internal control because previously identified reportable conditions, all of which are material, continue to exist. The following financial management deficiencies are indications of internal control weaknesses that significantly impair the ability of DoD to prepare financial statements in compliance with generally accepted accounting principles and to detect and prevent fraud or theft of assets. A high risk of material misstatements will continue to exist until the internal control deficiencies are corrected.

Financial Management Systems. Statement of Federal Financial Accounting Concept (SFFAC) No. 1, "Objectives of Federal Financial and Reporting," requires financial management systems controls that are adequate to ensure that transactions: are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with federal accounting standards. SFFAC No. 1 also requires that financial management system controls ensure that assets are properly safeguarded to deter fraud, waste, and abuse, and that performance measurement information is adequately supported. The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged that DoD financial management and feeder systems are unable to provide adequate evidence supporting various material amounts on the financial statements. Specifically, systemic deficiencies in financial management systems and business processes result in the inability to collect and report financial and that performance information that is accurate, reliable, and timely.

Fund Balance With Treasury. DoD is required by the U.S. Treasury Financial Manual and DoD Financial Management Regulation 7000.14-R, to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury. However, inconsistencies continue to exist related to: in-transit disbursements; problem disbursements, including unmatched disbursements and negative unliquidated obligations; unreconciled differences in suspense accounts; and unreconciled differences between the Department of Treasury records and DoD disbursing stations for checks issued, deposits and electronic fund transfers, and interagency transfers. The absolute value of these inconsistencies was approximately $20.6 billion as of March 31, 2003, and presents a major internal control problem for the Defense Finance and Accounting Service (DFAS). In addition, a survey of the managers of the 39 systems used at the 5 DFAS centers to identify and report in-transit and problem disbursements found that 1 system had been reviewed and 14 systems had not been reviewed for reliability. The remaining 24 system managers did not respond to the survey.

Inventory. DoD is required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property," to use the latest acquisition cost adjusted for holding gains and losses or moving average cost for valuing Inventory. However, DoD acknowledged that the existing process for inventory valuation does not produce an auditable approximation of historical cost because the associated gains and losses cannot be accurately tracked to specific items or purchases.

Attachment

Additionally, DoD does not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale, as required by SFFAS No. 3. Also, prior audit reports have identified inaccurate inventory records, deficiencies related to existence and completeness of inventory, and inaccurate inventory valuation.

Operating Material and Supplies. SFFAS No. 3 states that Operating Materials and Supplies shall be expensed when the items are consumed. However, DoD has acknowledged that significant amounts of Operating Materials and Supplies were expensed when purchased instead of when they were consumed. In addition, DoD acknowledged that significant amounts of Operating Materials and Supplies in the possession of contractors were not included in the Operating Materials and Supplies account balance.

Property, Plant, and Equipment. DoD acknowledged they could not support the reported cost of military equipment in accordance with generally accepted accounting principles because of an absence of detailed cost information. For additional details, see Note 10 to the financial statements. DoD also acknowledged that General PP&E is not reliably reported because legacy property and logistic systems were not designed to capture the acquisition cost and the cost of modifications and upgrades or calculate depreciation. In addition, there is a lack of supporting documentation for General PP&E with long useful lives.

Government-Furnished Material and Contractor-Acquired Material. SFFAS No. 11, "Amendments to Accounting for Property, Plant, and Equipment," requires that property and equipment in the possession of a contractor for use in accomplishing a contract is considered Government property. Government property should be accounted for based on the nature of the item, regardless of possession. DoD has acknowledged that it is unable to comply with applicable requirements for Government-Furnished Property and Contractor-Acquired Materials. As a result, the value of DoD property and material in the possession of contractors is not reliably reported.

Environmental Liabilities. DoD acknowledged that environmental guidance, inventory of ranges and operational activities (landfills, open burning pits, etc), and audit trails are incomplete. DoD also acknowledged that it did not recognize any unamortized clean-up costs associated with PP&E. In addition, we determined that data[4] and processes used for the Army Defense Environmental Restoration Program, non-Defense Environmental Restoration Program, and Army Base Realignment and Closure program resulted in unreliable Environmental Liability estimates. The Environmental Liability estimates were unreliable because Army activities did not have effective controls in place to: ensure adequate audit trails and documentation for supporting estimates, comply with established guidance in developing estimates, maintain reliable feeder and coordination systems, document supervisory review of estimates, and establish quality control programs.

Intragovernmental Eliminations and Other Accounting Entries. DoD acknowledged that it made unsupported adjustments with its trading partners because of the inability to reconcile most intragovernmental transactions. In addition, DoD acknowledged that material amounts of unsupported accounting entries continue to be made.

[4] We reviewed environmental financial data as of September 30, 2002, as FY 2003 data were unavailable at the beginning of the audit in February 2003. Even though DoD is in the process of implementing corrective actions such as issuing policy guidance and correcting some feeder and coordination systems, we believe the FY 2003 environmental financial data continue to be unreliable.

Statement of Net Cost. SFFAC No. 2, "Entity and Display," requires the Statement of Net Cost to provide an understanding of the net costs of each organization and each program. In addition, the Statement of Net Cost should provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and/or organization. DoD acknowledged the following deficiencies related to the Statement of Net Cost:

- amounts presented in the Statement of Net Cost may not in all cases report actual accrued costs;
- transactions are generally recorded on a cash basis instead of an accrual basis as required by generally accepted accounting principles;
- costs cannot to be accumulated for major programs based on performance measures as required by the Government Performance and Results Act because current financial processes and systems do not capture and report this type of cost information;
- accounting systems do not capture cost data in a manner that enables DoD to determine if the cost was incurred to generate intragovernmental revenue; and
- accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations; therefore, DoD was unable to reconcile intragovernmental revenue balances with its trading partners.

Statement of Financing. The SFFAS No. 7, "Concepts for Reconciling Budgetary and Financial Accounting," states that the Statement of Financing reconciles resources obligated during the period to the net cost of operations. However, DoD has acknowledged that it is unable to reconcile budgetary data to net costs. Specifically, budgetary data are not in agreement with proprietary expenses and assets capitalized. DoD disclosed in the notes to the financial statements that the Statement of Financing was adjusted by a net $12.5 billion to match the Statement of Net Costs. In addition, DoD presented the Statement of Financing on a combined basis instead of the consolidated basis as required by the Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements."

Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether DoD was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

Statutory Financial Management Systems Reporting Requirements. DoD is required to comply with the following financial management systems reporting requirements.

- Section 3512, title 31, United States Code, incorporates the reporting requirements of the FMFIA of 1982 and requires DoD to evaluate its systems and to annually report whether those systems are in compliance with applicable requirements.

- The FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger. The FFMIA also requires DoD to develop a remediation plan when its financial management systems do not comply with Federal financial management systems requirements. The remediation plan is to include remedies, resources required, and target dates.

For FY 2003, DoD did not fully satisfy the statutory reporting requirements identified in these provisions. DoD acknowledged that many of its critical financial management and feeder systems do not comply substantially with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In an attempt to comply with statutory reporting requirements and applicable financial management systems requirements, DoD is developing a DoD-wide Business Enterprise Architecture. However, the transition plan for the Business Enterprise Architecture falls short of meeting the requirements of a remediation plan under the FFMIA because it does not identify the resources that will be required to correct the noncompliance with Federal financial management system requirements.

The Business Enterprise Architecture, when completed, will provide a clear and comprehensive picture of DoD current or "As Is" operational and technological environment and its target or "To Be" environment. In addition, it will contain a capital investment plan for transitioning from the current to the target environment.

DoD relies on a complex and error-prone information technology environment that consists of approximately 2,300 systems that are not standardized across the Department. Consequently, it is unlikely that DoD will be able to fully comply with the statutory reporting requirements until the Business Enterprise Architecture is fully developed and implemented. Therefore, we did not perform tests of compliance for these requirements.

National Defense Authorization Act of Fiscal Year 2003. DoD complied with the Act's requirements to develop a Business Enterprise Architecture for all DoD systems and a transition plan for implementing that Business Enterprise Architecture by the required due date of May 1, 2003. However, a General Accounting Office (GAO) report, "DoD Business Systems Modernization – Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains," September 2003 (GAO-03-1018), states that the Business Enterprise Architecture does not adequately address Federal requirements and accounting standards as required by the Act. For example, GAO found that approximately 19 percent of Joint Financial Management Improvement Program requirements reviewed were not adequately addressed in version 1.0 of the "To Be" architecture. In addition, GAO found that DoD has not yet defined and implemented an effective approach to select and control business systems investments for obligations exceeding $1 million while the Business Enterprise Architecture is being developed and after it is completed.

Federal Information Security Management Act of 2002. DoD is required to report on the adequacy and effectiveness of information security policies, procedures, practices, and compliance with various laws and regulations. DoD is also required to develop, document, and implement a DoD-wide information security program, approved by OMB, to provide information security for the information and information systems that support the operations and assets of DoD. However, DoD has not developed, documented, and implemented a DoD-wide information security program, approved by OMB, to provide information security for the information and information systems that support the operations and assets of DoD.

Government Performance and Results Act of 1993. The Act and OMB implementation guidance contained in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," and OMB Bulletin 01-09 requires DoD to issue a revised and updated strategic plan every 3 years, an annual performance plan by December 31 of the current fiscal year for each program activity, and an annual performance report identifying actual program performance. DoD has not revised and updated their strategic plan and the previously issued strategic plan does not comply with OMB guidance. DoD also did not issue an annual performance plan for FY 2003 and has yet to issue an annual performance plan for FY 2004. In addition, the DoD Annual Performance Report for FY 2003 does not fully comply with the requirements of the Act and OMB implementation guidance. For example, the Annual Performance report does not: evaluate the performance plan, summarize program evaluations completed during the fiscal year, or provide a description of any material inadequacies in the completeness and reliability of performance data. Additionally, DoD acknowledged that it is unable to accumulate costs for major programs based on performance measures identified by the Government Performance and Results Act.

Prompt Payment Act of 1982. DoD is required to pay interest penalties for late payments, adhere to due dates and make periodic payments for partial deliveries or other contract performance, review invoices as soon as possible after receipt to determine if the invoice is proper, and maintain an internal control environment in accordance with OMB Circular A-123, "Management Accountability and Control." We identified uncorrected deficiencies in the DoD control environment related to payments. Specifically, we identified deficiencies in internal control standards prescribed by OMB Circular A-123 to include: access and accountability for resources, recording and documentation, and segregation of duties.

Audit Disclosures

The Under Secretary of Defense (Comptroller)/Chief Financial Officer acknowledged to us on April 17, 2003, that DoD financial management systems cannot provide adequate evidence supporting various material amounts on the financial statements. As a result, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal control, and compliance with laws and regulations.

We did not perform sufficient audit followup work of DoD compliance with selected provisions of the Antideficiency Act, the Debt Collection Improvement Act of 1996, the Pay and Allowance System for Civilian Employees, the Federal Credit Reform Act, and the Department of Defense Appropriation Act for FY 2003. We plan to perform audit tests of selected provisions of the previously discussed laws and regulations in the near future.

This report does not include recommendations to correct the material control weaknesses and instances of noncompliance because previous audit reports contained recommendations for corrective actions.

Part 4:
Inspector General Summary of Management Challenges

Inspector General Summary of Management Challenges

The Reports Consolidation Act of 2000, Public Law 106-531, permits the Secretary of Defense to submit a consolidated report to the President, to the Director of the Office of Management and Budget, and to Congress within 150 days of the end of the fiscal year, which "shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency, and briefly assesses the agency's progress in addressing those challenges." Based on audits, investigations, and inspections, the Inspector General has identified nine major challenges facing the Department of Defense. These challenges remain unchanged from those identified in the DoD Performance and Accountability Report for Fiscal Year 2002, and are discussed in more detail below, along with this Inspector General's brief assessment of the Department's "progress in addressing those challenges." The challenges are:

- Joint Warfighting and Readiness,
- Homeland Defense,
- Human Capital,
- Information Technology Management,
- Streamlined Acquisition Processes,
- Financial Management,
- Health Care,
- Logistics, and
- Infrastructure and Environment.

Due to its size and the diversity of its programs and activities, the Department of Defense is the most complex organization in government. The breadth of the challenges identified by the Office of the Inspector General attest to this complexity.

Improving management and performance of Defense programs has been a priority of the Secretary of Defense. Last year the Department developed a legislative program to modernize and transform DoD operations.

As Secretary Rumsfeld explained:

"We are working to promote a culture in the Defense Department that rewards unconventional thinking - a climate where people have freedom and flexibility to take risks and try new things. We are working to instill a more entrepreneurial approach to developing military capabilities, one that encourages people to behave less like bureaucrats; one that does not wait for threats to emerge and be 'validated,' but rather anticipates them before they emerge- and develops and deploys new capabilities quickly, to dissuade and deter those threats."[1]

In furtherance of the transformation process, the Secretary of Defense has established the following legislative priorities for Fiscal Year 2005:[2]

- Successfully Pursue the Global War on Terrorism,

[1] Remarks as Prepared for Delivery by Secretary of Defense Donald H. Rumsfeld, For the House Armed Services Committee, Wednesday, February 5, 2003.

[2] September 24, 2003, Memorandum from the Secretary of Defense, "Legislative Priorities for Fiscal Year 2005"

- Strengthen Combined/Joint Warfighting Capabilities,
- Transform the Joint Force,
- Optimize Intelligence Capabilities,
- Counter the Proliferation of Weapons of Mass Destruction,
- Improve Force Manning,
- Develop New Concepts of Global Engagement,
- Sustain Homeland Security,
- Streamline DoD Processes, and
- Reorganize DoD and the USG to Deal with Pre-War Opportunities and Post-War Responsibilities.

The challenges identified by the Office of the Inspector General parallel and support the Secretary of Defense's priorities. For example, the priorities of "Strengthen Joint Warfighting Capabilities," and "Homeland Security" are directly identified by the Office of the Inspector General as challenges, and the priority to "Streamline DoD Business Processes" is intrinsic in many of the major challenges that face the Department.

The President's Management Agenda includes five initiatives to help government work better. The five initiatives are Management of Human Capital, Improved Financial Management, Budget and Performance Integration, Competitive Sourcing, and Expanded Electronic Government. The major challenges identified by the Office of the Inspector General in the areas of Human Capital, Information Technology Management, Streamlined Acquisition Processes, Financial Management, and Logistics encompass these initiatives.

Joint Warfighting and Readiness

In order for U.S. forces to operate jointly in conflict, they must also train and operate together in peacetime. Ensuring that U.S. forces are ready to carry out assigned missions is the preeminent responsibility and challenge of the DoD. A wide variety of Defense functions, particularly in the personnel management, logistics, and acquisition areas, directly support and impact joint warfighting and military readiness. Many of the other management challenges encompass those functions that support joint warfighting and readiness issues.

Inspector General Assessment of Progress

In assessing progress by the Department in this area, as in many of the other management challenges, it must be recognized that improvement is an ongoing process. The establishment of the Joint Forces Command will improve joint warfighting and readiness. However, the Command is only starting on initiatives to improve this capability. Likewise, DoD leadership has recognized the need to design and produce new systems with joint warfighting requirements in mind. Joint Vision 2020 states that interoperability is a mandate for the future joint force especially for communications, logistics, and information technology. To attain Joint Vision 2020 and reduce the risk of building stovepipe systems, the Defense Components are being required to develop and retrofit DoD systems into common interoperable and secure systems. While progress is being made to promote jointness, greater attention is needed in several areas.

Discussion

An Office of the Inspector General report on implementation of interoperability and information assurance policies for acquisition of DoD weapon systems pointed out the need for consistent guidance and a process to measure and assess interoperability. Otherwise, DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable systems to satisfy the needs of the joint warfighter. The Director, Joint Staff agreed with the report and also commented that there was a fundamental issue beyond the audit "that DoD is not effectively structured to effect the organizing, training, and equipping of joint capabilities. There is no joint process responsible for developing and acquiring joint command and control systems and integrating capabilities."

Although readiness is frequently assessed in exercises and inspections, multiple independent reviews by the Office of the Inspector General and by the Military Department Audit Agencies indicate that the readiness reporting system is cumbersome, subjective, and not fully responsive to the needs of senior decision makers. In fiscal year 2003 there were 21 reports on joint warfighting and readiness. Office of the Inspector General reports on Active, Reserve, and National Guard Components identified readiness issues related to the accurate reporting of preparedness for chemical and biological defense. The Naval Audit Service also issued reports on the need to improve readiness reporting for selected aircraft, submarine, and marine forces. The Department is implementing a new DoD Readiness Reporting System that will be the primary means by which the DoD Components will measure and report on their readiness to execute the missions assigned to them by the Secretary of Defense.

The proliferation of biological and chemical technology and material has provided potential adversaries with the means to challenge directly the safety and security of the United States and its military. The Chemical and Biological Defense Program is an excellent example of a program supporting joint warfighting to ensure that military personnel are the best equipped and best prepared forces in the world for operating in battle space that may feature chemically and biologically contaminated environments. The program development of common masks, the Joint Service Lightweight Integrated Suit Technology ensembles, and an integrated suite of chemical and biological detection equipment are noteworthy examples of eliminating service stovepipes and related overlapping costs in order to promote jointness. The Commander, U.S. Central Command exhibited a high degree of joint warfighting expertise in its chemical and biological defense program. The U.S. Naval Forces, Central Command, located in Bahrain enacted a vigorous and comprehensive program, not only for naval personnel, but also for the other services, DoD civilians, and dependents as well.

The Office of the Inspector General has continued its strong presence in ensuring adequate oversight of chemical and biological defense issues. Since we began working on this issue in 1994, the Department has made significant strides in improving the quality of chemical and biological defense equipment, the individual and unit training, and equipping of military units. Although much progress was made, additional program improvements were needed. The Office of the Inspector General reported on issues with the logistics and maintenance of chemical and biological protective equipment in the U.S. Pacific Command, the acquisition of chemical detection equipment, the management of the chemical demilitarization program, and the readiness of U.S. forces to operate in a chemical and biological warfare environment. The need for adequate decontamination equipment and training for its use in a chemical and biological contaminated environment was identified as a key requirement to improve readiness of the forces. The Army Audit Agency and Naval Audit Service reported on the need to improve Army and Marine Corps unit-level training for chemical and biological defense and provide additional support for chemical and biological defense to forward-stationed DoD civilians and contractors. In reports, the General Accounting Office has concluded that chemical and biological defense equipment, training, and medical problems persisted, and if not addressed, were likely to result in a degradation of U.S. warfighting capabilities. The Department must significantly improve on the availability of licensed medical chemical and biological countermeasures for Force Health Protection. Moreover, the technologies for medical products against endemic infectious diseases needs to be leveraged with the technologies that support biological warfare medical counter measures.

A primary challenge of the intelligence community is to refocus intelligence priorities to strengthen intelligence capabilities for the 21st century. Inherent in this refocusing is providing timely and actionable intelligence to the warfighter. During fiscal year 2003, the Office of the Inspector General issued seven reports that were directly focused on improving intelligence support to the warfighter. The report on intelligence support to personnel recovery operations found a lack of oversight, guidance, and direction related to the intelligence support to personnel recovery. The lack of oversight, guidance, and direction resulted in disjointed and incomplete training, operations support, and intelligence production and collection. In view of the possibility of hostilities with Iraq, DoD immediately began implementing our recommended corrective actions. A report on coalition intelligence disclosure policy for the Global War on Terrorism identified the need for improved coordination and information sharing. Approximately 80 DoD organizations or groups are involved in, or working on, some aspect of coalition information sharing resulting in a pattern of duplication that adversely affects coalition information sharing. DoD is taking action to resolve these issues. Another report on intelligence support to in-transit force protection identified a lack of coordination for intelligence support to force protection activities among new organizations, programs, and systems established to provide intelligence support. Appropriate actions have been taken by the responsible organizations or are ongoing as a result of the final report.

The Office of the Inspector General also works to promote the readiness of our nation's warfighters through a sustained emphasis on proactively identifying and prosecuting contractors engaged in providing substandard and non-conforming equipment and parts. The Defense Criminal Investigative Service continues to make product substitution one of its top priorities. This mission has become more difficult over the past several years due to a lack of direct Federal Government quality control at contractor facilities, therefore requiring a much greater reliance on the integrity of the contractor.

DoD lacks comprehensive policy, guidance and training concerning roles, missions, functions, and relationships of Combatant Command Inspectors General. This significantly inhibits the ability of these Inspector Generals to perform their duties in support of the Combatant Commands. The DoD Office of the Inspector General is acting in concert with the Joint Staff, Combatant Command, and Military Department Inspectors General on three fronts to provide the guidance and training required by these Joint Inspectors General. The Office of the Inspector General will lead an effort to update DoD Directive 5106.4, "Inspectors General of the Unified and Specified Combatant Commands" to improve its relevance to operations. In conjunction with this initiative, the Office of the Inspector General will document the Joint Inspector General practices and procedures and codify them in formal policy. Additionally, the Office of the Inspector General will assess the needs of the Combatant Command Inspectors General for joint Inspector General training and develop a joint Inspector General training curriculum that leverages ongoing efforts to respond to their specific requirements.

Homeland Defense

The start of Operation Iraqi Freedom has heightened the level of threat from adversaries who may use nuclear, chemical, and biological weapons, and weapons of mass disruption such as information warfare attacks on the Defense information structure. Homeland security has been a priority across the Federal government and significant initiatives such as the establishment of the Department of Homeland Security and, within the Department of Defense, the creation of an Assistant Secretary of Defense for Homeland Defense, should improve the coordination of policy and resources directed to protecting the United States.

Inspector General Assessment of Progress

The Department is making progress on improving Homeland security. The recent establishment of the Assistant Secretary of Defense for Homeland Defense and the U.S. Northern Command, with a mission of homeland defense and civil support, are laudatory actions. These new organizations are in the process of addressing the multifaceted threats to the United States. Both the DoD audit community and the criminal investigative community have contributed to the Department's efforts to enhance Homeland security. Reports issued by the Office of the Inspector General as well as by the General Accounting Office have covered topics such as the need to strengthen efforts to improve information sharing by Federal authorities to state and city governments, the need for taking action to improve the efficiency of mobilization for Reserve Forces, and the need to enhance transportation security efforts. For every report that identifies an issue needing attention, the Department is taking positive actions in order to better protect American citizens.

Discussion

One of the many issues addressed in Homeland security is the ability of the United States to ensure continuity of government should such an attack occur. The Office Secretary of Defense Continuity of Operations Plan is the cornerstone document detailing the procedures and responsibilities that would ensure that the Secretary of Defense could maintain the essential functions of the Department of

Defense during times of crisis. The Office of the Inspector General issued a report concluding that the Office Secretary of Defense continuity of operations plan, if executed, would ensure Office Secretary of Defense continuity of operations, though improvements in communication and coordination processes would increase the effectiveness of the Office Secretary of Defense continuity of operations plan.

Information security is a cornerstone of Homeland security. The information security threat to DoD systems and to other public and private sector systems on which national security depends is greater than ever. Its sources include foreign governments, terrorist groups, disgruntled government or contractor employees, vandals, criminals with financial motives, and mere curiosity seekers. The challenge to DoD is to minimize vulnerabilities without losing the advantages of open, interconnected systems with large numbers of users. Because of the constantly evolving threat and the sheer size of DoD information operations, the Department needs to be both highly flexible and systematic in its approach to information security. Although the DoD is a leader in resolving many aspects of this complex problem, we continue to find a wide range of security weaknesses.

Since fiscal year 2001, the Government Information Security Reform Act has required that each agency obtain an independent assessment of its security posture. In fiscal year 2001 and fiscal year 2002, the Office of the Inspector General evaluated the security posture based on an independently selected subset of information systems, and a summary of the Office of the Inspector General review was provided to DoD for inclusion in its report to the Office of Management and Budget. The fiscal year 2002 review assessed the accuracy of the data DoD used in fiscal year 2001 to report the security status for 560 information technology systems. DoD reported invalid data on the security status of systems for an estimated 370 systems. Further, although the requirement for systems to obtain security certification and accreditation has existed since 1997, we estimate that only 101 of 560 systems met the requirement. Consequently, the Office of Management and Budget and DoD managers do not have dependable information to ascertain the degree to which information security controls exist in systems.

In conjunction with the Inspectors General of the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, the National Reconnaissance Office and the National Security Agency, the Office of the Inspector General also assessed the adequacy and effectiveness of the DoD intelligence agencies' information assurance policies and procedures. We have made numerous recommendations to improve the Defense agencies' information assurance program. Each of the DoD intelligence agencies have taken aggressive steps to improve their information assurance posture, but more improvements are needed.

The Chairman of the Joint Chiefs of Staff stated that the paradigm driving the maintenance of information has changed from the Cold War "need to know" to the Global War on Terror "need to share." While information security remains an important issue, information sharing is now critical to our intelligence, counter-terrorism, and critical infrastructure protection efforts. The Department needs to address the challenges associated with information collection from sources of ever increasing diversity, as well as providing access to timely and useful sensitive information to other Federal agencies, state governments, and local law enforcement.

Two reports by the Office of the Inspector General on exporting technology underscored the need for continued emphasis in this area. In addition, the DoD continues to work with other agencies to improve the controls over exports of sensitive technology. In this regard, the Congress can help by reauthorizing the long-expired Export Administration Act so that national policy objectives are clear and the controls are completely consistent with those objectives.

The Defense Criminal Investigative Service has partnered with the Bureau of Immigration and Customs Enforcement, Department of Homeland Security, in order to circumvent the illegal transfer of technology critical to the defense infrastructure. Defense Criminal Investigative Service has expanded the use of the undercover technique as a means to identify and successfully prosecute those involved in the area of technology transfer. A series of Office of the Inspector General reports identified the need to improve the policy and security and export controls over biological agents at Defense laboratories and medical facilities. A classified interagency summary report issued by Office of the Inspector General about controls over select biological agents identified the following systemic issues: physical security, personnel access controls, inventory accountability and controls, emergency disaster plans, registration with the Centers for Disease Control and Prevention, import and export of agents, training, management oversight, and policies and procedures.

The Cooperative Threat Reduction Program was initiated to reduce the threat posed by weapons of mass destruction in the former Soviet Union. Under the program, the United States assists former Soviet Union states in building facilities and operating programs to safeguard, transport, and ultimately destroy chemical, biological, and nuclear weapons, delivery systems, and infrastructure. Adequate controls for the program are vital to ensuring that the limited program funds are used effectively. The lack of adequate controls was clearly demonstrated in an Office of the Inspector General report. The review showed that although DoD spent $99 million to design and begin construction of a facility to eliminate solid rocket motors, the facility would not be constructed because of local opposition in the Russian Republic where the facility was to be built. Adequate inspections and firm agreements were not in place. On the positive side, DoD has taken several steps to reduce risks in the execution of ongoing and future projects. One initiative undertaken is the development of a Joint Requirements Implementation Plan. DoD has implemented a phased approach to project execution to further reduce DoD risks. DoD also shifted the risk to Russia by agreeing to reimburse Russia after the solid rocket motors are destroyed.

In September 2003, the Deputy Secretary of Defense realigned Critical Infrastructure Protection Oversight to the Assistant Secretary of Defense for Homeland Defense. The Assistant Secretary of Defense for Homeland Defense will focus on the planning and execution of DoD activities and the use of resources in preventing and responding to threats to infrastructures and assets critical to DoD missions.

In response to concern expressed by the Deputy Under Secretary of Defense (Installations and Environment) that fire department and emergency services had not been reviewed to assess their ability to respond to new and realistic threats, such as weapons of mass destruction, the Office of the Inspector General conducted an evaluation of the DoD Fire and Emergency Services Program. The evaluation identified that additional missions, increased deployments, National Guard and Reserve Component mobilizations, and inefficient hiring processes have adversely impacted fire department staffing. Additionally, the Office of the Inspector General found that the Military Departments did not give priority to fire fighting apparatus during the budget process resulting in apparatus being under funded by $550 million, over-age, and sometimes nonfunctional.

To support the Department's efforts to enhance homeland security and to wage the global war on terrorism, the Defense Criminal Investigative Service is (1) participating in the regional Federal Bureau of Investigation Joint Terrorism Task Forces and the National Joint Terrorism Task Forces; (2) placing investigative emphasis on Terrorism, Homeland Security, Technology Protection, Industrial Espionage and Computer Network Defense issues; (3) committing nearly 30 percent of the agent corps directly to these high priority missions in support of the warfighter; and (4) rotating two agents every 90 days to an Iraq Detail, in direct support of the Coalition's Provisional Authority. The Department needs to coordinate the law enforcement and counterintelligence efforts associated with supporting the regional Joint Terrorism Task Forces and the National Joint Terrorism Task Force command center.

DoD is lacking in the coordination of both counterintelligence and law enforcement information from both within the Department and in coordination with other Federal Agencies. The establishment of the Joint Task Force-Computer Network Operations, and the Law Enforcement and Counterintelligence Center to coordinate and deconflict computer intrusion information, operations, and investigations has been a major step forward in this area. However, this needs to be expanded beyond the boundaries of computer network defense to include all counterintelligence and law enforcement information, operations, and investigations. The Counterintelligence Field Activity is undertaking this tremendous effort, but this will require the total support of all of the DoD entities, without reservation. The DoD Computer Network Defense Regulation should be used as the boiler-plate to establish and mandate the reporting and coordination of all law enforcement and counterintelligence information within DoD, and to establishing one entity within the Department to serve as the point of contact for this effort.

Human Capital

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, encouraged to engage in intelligent risk taking, and thus capable of handling the emerging technologies and threats of the 21st century. The Department has 2.6 million active duty and reserve men and women under arms and a civilian workforce of 680,000. The President's fiscal year 2003 budget projects a civilian workforce of 615,000 by fiscal year 2007. The size of DoD and the wide variety of skills needed to meet this challenge are complicating factors, as are the constraints posed by Federal Government civilian personnel management rules. Also, the 1990s were a period of downsizing and reduced hiring, which led to an aged workforce. The current average age in most civilian job series is late forties. In some job series, such as quality assurance specialists and test range engineers, the average age is well over fifty. The aging workforce is highlighted by the fact that 66 percent of the workforce will be eligible to retire by fiscal year 2006. The Department must identify and maintain a balanced basic level of skills to maintain in-house capabilities and meet the challenges of the 21st century. The continuing increase in the number of retirement-age employees could make it difficult for DoD to maintain an institutional memory and to infuse its workforce with new and creative ideas and to develop the skilled civilian workers, managers, and leaders it will need to meet future requirements.

Inspector General Assessment of Progress

Overall, the Department is making progress on many fronts to improve human capital. The Department's legislative proposal for The National Security Personnel System is strongly supported by the Office of the Inspector General because it will create the flexibilities needed to manage the 21st century workplace. Other positive initiatives the Department has undertaken to transform its forces include adopting a capabilities-based approach to planning based on clear goals and to improve the linkage between strategy and investments. The Department recognized the need for a strategic plan for the civilian workforce by publishing the Department's first civilian human resources strategic plan. The strategic plan imparts the Department's direction with its vision, values, principles, critical success goals and objectives. The General Accounting Office has done considerable work in the area of Strategic Human Capital Management. In its High-Risk Series, the General Accounting Office reported that despite considerable progress over the past two years, today's human capital strategies are not appropriately constituted to meet the current and emerging challenges or to drive the needed transformation across the Federal Government. The problem is a set of policies and practices that are not strategic, and are viewed as outdated and over regulated. Wherever the General Accounting Office and the audit community have identified a problem with Human Capital, the Department has initiated aggressive corrective actions.

Discussion

On June 17, 2003, the General Accounting Office announced that it was beginning a review of the DoD Strategic Workforce Planning for Civilians. The review would determine the extent to which DoD and the Military Departments have developed and implemented strategic workforce plans for civilians to meet future requirements; what actions DoD has taken to ensure the credibility of the workforce data and analysis used in these plans; and what best practices and challenges affect the development and implementation of the plans.

During fiscal year 2003, the DoD audit community issued 20 reports addressing human capital issues. Pursuant to a requirement contained in the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107), the Office of the Inspector General issued a report on a review of DoD Compliance with the Uniformed and Overseas Citizens Absentee Voting Act. The review found that the Federal Voting Assistance Program Office had developed guidance and resources needed for effective and compliant DoD implementation of the Act; however, the effectiveness of the Military Departments' voting assistance programs varied at locations visited. Although each Military Department had a plan for implementing the voting assistance program, the effectiveness of the Military Departments' programs varied for the November 2002 election at the 10 locations visited.

The Military Department Audit Agencies issued reports concerning use of Marine Corps military personnel to perform non-military functions, time and attendance practices, Air Force personnel demographic data, and unemployment compensation for former Air Force civilian employees.

DoD could have made better use of quality assurance resources by assessing its use of quality assurance specialists. The Defense Contract Management Agency needs to evaluate how its quality assurance specialists are being used, considering the following factors:

- the Defense Contract Management Agency workforce is small and getting smaller,
- more contracts are being awarded to smaller contractors,
- the number of contractors doing business with DoD has nearly doubled in the last 5 years,
- the average age of the Defense Contract Management Agency quality workforce is 52.6 years, and
- ratios of contracts to quality assurance specialists are increasing, resulting in too much work for each to accomplish.

Information Technology Management

The key to success on the modern battlefield and in internal business activities is the ability to produce, collect, process, and distribute information. Data must be accurate, timely, secure, and in usable form. The huge scale, unavoidable complexity, and dynamic nature of DoD activities make them heavily dependent on automated information technology. This dependence has proven to be a major challenge because DoD management techniques have not kept pace with the continual growth in information user requirements and the shortened life spans of technologies before obsolescence. Much of the DoD success in meeting the Secretary of Defense's priorities and the major management challenges will depend on effective and efficient information technology management.

Inspector General Assessment of Progress

Progress is positive in addressing the challenge of information technology management. The Business Management Modernization Program was established in 2003 in recognition of the need to manage information technology systems acquisitions and modernization from an enterprise perspective. The new program should help provide the oversight needed to instill discipline in the acquisition and modernization process. Further, in response to the President's Management Agenda initiative on Expanded Electronic Government, the Department has also increased the quality of business cases and the visibility into its information technology portfolio. The audit reports issued on Information Technology Management by the Office of the Inspector General were also received in a positive manner by the Department as areas deserving attention.

Discussion

During fiscal year 2003, 24 audit reports continued to indicate a wide range of management problems in systems selected for review. The important systems for which management improvements were recommended included the U.S. Army Corps of Engineers Management Information System and the Army's All Source Analysis System. The acquisition oversight of the All Source Analysis System was insufficiently emphasized, with the result that the Army deployed system components that did not satisfy user requirements.

One Office of the Inspector General report on the Global Command and Control System—Joint Operation Planning and Execution System— found the fielding of the most current version, Joint Operation Planning and Execution System 21, had fallen 46 months behind schedule because of insufficient project oversight. The Defense Information Systems Agency, the Program Manager for Joint Operation Planning and Execution System 21, agreed to provide greater attention to integrated logistics support planning and increase use of baseline management and performance-based service contracting.

In addition, auditors began reporting on progress in developing the DoD business enterprise architecture necessary to respond to Office of Management and Budget and congressional requirements, as well as to support its transforming initiatives. Auditors found that DoD has neither a single DoD-wide definition of a business management information technology system nor a systems inventory to support the business enterprise architecture initiative. This condition also makes the budgeting process for DoD information technology investment opaque to senior managers and impedes DoD responsiveness to Office of Management and Budget data calls and interdepartmental initiatives. DoD needs to do more work in better managing information technology investments using the business enterprise architecture initiative as a foundation.

Challenges confronting the Department of Defense in the area of information security are discussed under the topic of Homeland Security.

Streamline Acquisition Processes

No other organization in the world buys the amount and variety of goods and services as the DoD. In fiscal year 2002, the Department spent $200 billion on acquisitions. On average every working day, the Department issues more than 20,000 contract actions valued at $692 million and makes more than 5,000 purchase card transactions valued at $26 million. There are about 1,600 weapon acquisition programs valued at $2.1 trillion over the collective lives of these programs. The amount spent to procure services, $77 billion in fiscal year 2001, grew to $93 billion in fiscal year 2002 as DoD Components continued to expand outsourcing pursuant to the Federal Activities Inventory Reform Act of 1998 and the President's Management Agenda initiatives. The management challenge is, despite this huge scale, to provide materiel and services that are superior in performance, high in quality, sufficient in quantity, and reasonable in cost.

Inspector General Assessment of Progress

Overall the Department has made continuous progress over the past decade in streamlining the acquisition process. The Office of the Inspector General has partnered with DoD on improving numerous acquisition processes. Despite progress, the sheer volume of acquisitions and the numerous annual changes in regulations and processes for the acquisition professional make this a long-term challenge.

Discussion

The Department needs to be vigilant in investigating procurement fraud to optimize the financial resources appropriated for national defense. During the course of investigations, Defense Criminal Investigative Service needs to identify areas of weakness uncovered within the procurement system that are vulnerable to fraudulent activity, and ensure that they are adequately addressed.
During fiscal year 2003, the DoD internal audit community issued 116 reports that addressed a range of continuing acquisition issues. The Defense Contract Audit Agency continued to assist contracting officers through contract audits that have identified \$3.2 billion of questioned costs and funds put to better use for the first half of fiscal year 2003. These monetary benefits reduce program costs and the need for additional appropriations.

To streamline a portion of the enormous process for buying goods and services, DoD participates in the Federal purchase card program for micro-purchases (\$2,500 and less) and contract payments. Paperwork, time, and other administrative costs are reduced when the purchase card is used. However, a lack of controls over purchase card use diminished the benefits derived from the program by allowing fraud and misuse to occur unchecked. A fiscal year 2003 Office of the Inspector General "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions" detailed the collaborative efforts between DoD managers, auditors, and investigators to develop automated techniques to detect purchase card fraud and misuse. In a review of 1,357 cardholders, the automated techniques helped to expose 182 cardholders who had expended about \$5 million in questionable transactions.

Problems continue to exist in the award and administration of contracts for professional, administrative, and management support services. Contracting officials continue to award contracts for services without following prescribed procedures. Audit reports found problems with either nonuse of historical information for defining requirements, inadequate competition or questionable sole-source awards, inadequate contract surveillance, or noncompliance with Truth in Negotiations Act procedures.

To streamline the acquisition process and to comply with the Federal Acquisition Streamlining Act of 1994, DoD has encouraged the use of performance-based payments as a means to finance fixed-price contracts. Performance-based payments offer incentives to contractors and the Government. Contractors need only to meet agreed-upon performance milestones to receive payments (that include profit) up to 90 percent of the contract price and the Government only has to ensure that the agreed-upon performance occurred. Performance-based payments provide the potential for quicker payments to the contractor and a reduction in administrative costs for DoD. Challenges, however, exist relating to the performance-based payments initiative. An Office of the Inspector General report on "Administration of Performance-Based Payments Made to Defense Contractors" showed instances in which DoD did not have documentation to support more than \$4.1 billion in performance-based payments. DoD stated that corrective actions were underway and that future performance-based payments would have adequate documentation to show that performance occurred.

Competitive sourcing is one of the five Government-wide initiatives in the President's Management Agenda. The President stated, "Government should be market-based—we should not be afraid of competition, innovation and choice. I will open government to the discipline of competition." According to the President's Management Agenda, nearly half of all Federal employees perform tasks that are readily available in the commercial marketplace and, historically, the Federal Government has realized savings in the range of 20 to 50 percent when Federal Government and private sector service providers compete to perform those functions. Audits showed problems with the contentious process of comparing the cost of in-house performance to private sector performance.

A General Accounting Office report on Space Systems Acquisition Management Policy showed that although the new DoD space acquisition policy may help provide more consistent and robust information on technologies, requirements, and cost; the benefits might be limited. The General Accounting Office reported that the new policy does not alter the DoD practice of committing major investments before knowing what resources will be required to deliver promised capability. The General Accounting Office stated that their work has repeatedly shown that the concurrency of development of leading edge technology within product development increases the risk that significant problems will be discovered as the system is integrated and built.

Other Office of the Inspector General reports showed that management of the Aviation Into-Plane reimbursement card and contracting procedures with small businesses (Historically Underutilized Business Zones) needed improvement.

The Army Audit Agency issued reports on service contracts, property accountability procedures, the Government Purchase Card Program, and the Risk Management Program for the Stryker Vehicle System. The Naval Audit Service reviewed acquisition issues on configuration management, Risk Assessments of Naval Systems Acquisition and Acquisition Logistics, the Navy Travel Card Program, commercial activity studies, and other areas. The Air Force Audit Agency also issued reports on purchase cards, commercial activity studies, and acquisitions such as weather observation services, controls over contractor access to Air Force installations, and computer equipment.

Financial Management

The President's Management Agenda has initiatives on Improved Financial Performance and Budget and Performance Integration. These initiatives will help focus the Department on the Financial Management challenge. The Department's financial statements are among the largest and most complex and diverse financial statements in the world. The Department's fiscal year 2003 financial statements include $1.1 trillion in assets and $1.6 trillion in liabilities. The Department has 1.4 million active duty military personnel, 680,000 civilian employees, 1.2 million military personnel in the National Guard and Reserve, and 2.0 million retirees and families receiving benefits. The Department operates from more than 6,000 locations in more than 146 countries and includes more than 600,000 buildings and structures. The Defense Finance and Accounting Service processed 12.3 million invoices, recorded 121 million accounting entries, paid 5.9 million people, and disbursed $416.1 billion in fiscal year 2003. The DoD audit community issued 135 reports during fiscal year 2003 to improve financial management.

In addition to the Department-wide financial statements, the Department is responsible for preparing and obtaining an audit opinion for nine component financial statements. The Department is also responsible for preparing financial statements for three intelligence agencies.

Inspector General Assessment of Progress

In fiscal year 2003, the Department made greater progress in addressing the challenge of improving financial management than in any other year since passage of the Chief Financial Officers Act. A senior level partnership was forged among the Deputy Director for Management, Office of Management and Budget; the Comptroller General, the Under Secretary of Defense (Comptroller)/Chief Financial Officer; and the DoD Inspector General to address the financial management challenges in DoD. The problems are being identified and the partnership is jointly bringing the resources to bear to identify solutions. Further, for the first time, all the major financial statements identified the impediments to obtaining an opinion and the costs and timeframes for overcoming the impediments.

Discussion

The Department faces financial management problems that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the Department. These financial management problems have impeded the Department's ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. The problems have also prevented the Department from receiving a clean opinion on its financial statements. The Office of Management and Budget anticipates that the Department will be the only agency covered under the Chief Financial Officer Act that will not receive a clean opinion in fiscal year 2003.

The General Accounting Office has identified six high-risk areas within the Department. Three of the six high-risk areas (financial management, systems modernization, and inventory management) directly impact the Department's ability to get a clean audit opinion on its financial statements. Additionally, the Office of the Inspector General has identified 11 material control weaknesses that directly impact the Department's ability to get a clean opinion on its financial statements including: financial management systems; fund balance with treasury; inventory; operating material and supplies; property, plant and equipment; government furnished material and contractor acquired-material; military retirement health care liabilities; environmental liabilities; intragovernmental eliminations and other accounting entries; statement of net cost; and statement of financing. The Department's high-risk areas and material control weaknesses will prevent the Federal Government from achieving a clean opinion on their consolidated financial statements in fiscal year 2003.

Of these high-risk areas and material control weaknesses, the most significant problem is the Department's financial management systems. The Department currently relies on approximately 2,300 systems, including accounting, acquisition, logistics, and personnel systems, to perform its business operations. Many of these financial management systems do not comply substantially with Federal financial management system requirements. In addition, there is little standardization across the Department. Multiple systems perform the same task, identical data is stored in multiple systems, data is manually entered into multiple systems, and there are many work-arounds and off-line records to translate data from one system to another.

To address this problem, Congress included requirements in the National Defense Authorization Act for fiscal year 2003, which required the Department to develop a business enterprise architecture and a transition plan for implementing the business enterprise architecture. The Act requires the business enterprise architecture to describe an information infrastructure that would enable the Department to achieve certain capabilities, such as complying with all Federal accounting, financial management, and reporting requirements; integrating accounting, budgeting, and information systems; and routinely providing timely, accurate, and reliable financial and management data for management decision making. The Department has delivered the initial version of the business enterprise architecture and transition plan; however, much work remains.

The President's Management Agenda also contains initiatives for improving the Department's financial performance. The President's Management Agenda directs the Office of Management and Budget to work with the Department to provide reliable, timely, and useful information to support operating, budgeting, and policy decisions. The initiatives to ensure reliability include obtaining and sustaining clean audit opinions for the Department and its components. Timeliness initiatives include re-engineering reporting processes, instituting quarterly financial statements, and accelerating end-of-year reporting. Initiatives for enhancing usefulness include requiring comparative financial reporting, and reporting specific financial performance measurements.

The Office of the Inspector General is working closely with the Department to address the administration's requirement for accelerated submission of audited financial statements. Recently, the Office of the Inspector General, at the request of the Office of the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, completed a study of the "size and scope" of requirements to audit the Department's financial statements, and established a long-term audit strategy for auditing the Department's annual financial statements. If the recommendations from this study are implemented by all parties concerned, the Under Secretary of Defense (Comptroller)/Chief Financial Officer anticipates a clean opinion for the fiscal year 2007 financial statements. We support the high priority the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Defense Finance and Accounting Service are giving to providing accurate, timely, and reliable financial statements.

Health Care

The DoD military health system challenge is to provide high quality health care in both peacetime and wartime. The DoD military health system must provide quality care for approximately 8.7 million eligible beneficiaries within fiscal constraints and in the face of price growth pressure that has made cost control difficult in both the public and private sectors. The DoD military health system was funded at $26.6 billion in fiscal year 2003, including $16.2 billion in the Defense Health Program appropriation, $5.6 billion in the Military Departments' military personnel appropriations Defense Health Program personnel, $0.2 billion for military construction, and $4.6 billion from the DoD Medicare-Eligible Retiree Health Care Fund to cover the costs of health care for Medicare eligible retirees, retiree family members and survivors.

Inspector General Assessment of Progress

The DoD has been aggressively moving forward on improving health care while attempting to control costs. New contracts for TRICARE, the Department's military health system provider, and improved coordination and sharing of DoD and Department of Veterans Affairs health care resources highlight actions to improve delivery of health care and control costs. Further, the DoD has reacted positively to initiate corrective actions whenever the audit community identified problems in health care management.

Discussion

During fiscal year 2003, the DoD audit community issued 12 reports addressing issues such as DoD and Department of Veterans Affairs resource sharing, franchise business activity contracts, third party collections, and medical conference costs. Fraud is also a factor in controlling health care costs. During fiscal year 2002, $2.3 million was identified for recovery to the TRICARE Management Activity as a result of criminal investigations. In addition, TRICARE Management Activity received $1.8 million in administrative recoupments. However, total fraud judgment dollars declined in fiscal year 2002, primarily because of a shift in DoD investigative priorities to homeland security and anti-terrorist activities after the September 11, 2001, attacks.

The primary peacetime challenges for the DoD military health system in 2004 will be implementing the new TRICARE managed care contracts, developing a fair and accurate process for making Base Realignment and Closure recommendations, and ensuring compliance with the Health Insurance Portability and Accountability Act. Three TRICARE managed care contracts valued at $6.4 billion were awarded on August 21, 2003. Those three contracts will be phased in over a 14-month period beginning September 1, 2003, replacing the current seven contracts. Each award requires transferring some of the region to a new managed care contractor. The results of the Base Realignment and Closure initiative will impact the numbers and types of medical facilities that will make up the DoD military health system. Office of the Assistant Secretary of Defense for Health Affairs and Military Department medical personnel have a major role in determining the future of the DoD military health system through participation in the Medical Joint Cross Service Group. Compliance with the Health Insurance Portability and Accountability Act is to be done in three phases. The first phase, protection of patient health information, was required to be implemented by April 2003. The second phase, standardized electronic transactions, is scheduled for implementation in October 2003. Implementing the third phase, safeguarding patient health information, requires completing tasks in fiscal year 2004 for the safeguards to be in place by spring of 2005.

The primary readiness challenges include the readiness of the forces and the readiness of the medical staff and units. Readiness of the forces means ensuring that all deployable forces are individually medically ready to perform their missions before deploying, while deployed, and upon their return. The Office of the Assistant Secretary of Defense for Health Affairs has developed a new standard for individual and unit medical readiness, and commanders should be held responsible for ensuring their forces meet this standard. Readiness of the medical staff and units includes ensuring that medical staff can perform at all echelons of operation and the units have the right mix of skills, equipment sets, logistics support, and evacuation capabilities. Metrics will need to be developed to assess relative readiness levels.

In addition to the peacetime and readiness challenges, the President's Management Agenda for fiscal year 2002 identified nine agency-specific initiatives. One of the specific initiatives was the coordination of the DoD and the Department of Veterans Affairs medical programs and systems. This issue is further addressed in Section 721 of the National Defense Authorization Act for fiscal year 2003, which requires coordination and sharing of DoD and the Department of Veterans Affairs health care resources. Effective October 1, 2003, DoD and Veterans Affairs are each required to contribute $15 million to the DoD-Veterans Affairs Health Care Sharing Incentive Fund to finance future sharing initiatives. In addition, Section 722 of the National Defense Authorization Act for fiscal year 2003 required DoD to contribute $3 million in fiscal year 2003, $6 million in fiscal year 2004, and $9 million in later years to cover a "health care resources sharing and coordination project." We believe the sharing requirement will benefit both agencies and reduce costs. We addressed this initiative in a recently released audit. Other audits have identified additional DoD and Department of Veterans Affairs sharing opportunities.

Logistics

The DoD logistics support operations for supplies, transportation, and maintenance costs more than $80 billion a year. This includes $40 billion, and nearly 700,000 military and civilian personnel and several thousand private sector firms, involved in the maintenance of more than 300 ships; 15,000 aircraft and helicopters; 1,000 strategic missiles; and 350,000 ground combat and tactical vehicles, and hundreds of thousands of additional mission support assets. In addition, DoD maintains an inventory of items such as clothing, engines, and repair parts valued at an estimated $63 billion to support the warfighter. The purpose of logistics is to reliably provide the warfighter with the right material at the right time to support the continuous combat effectiveness of the deployed force.

Inspector General Assessment of Progress

The challenge of making DoD a world-class logistics provider is vast, but valuable progress is being made. The Department has a strategic plan and numerous pilot programs to help improve logistics. The DoD audit community is assisting the Department in evaluating new business processes and in identifying additional processes needing reform.

Major logistics initiatives include Performance Based Logistics, Future Logistics Enterprise and Base Realignment and Closure. The September 2001 Quadrennial Defense Review mandated implementation of performance based logistics in support of weapon systems. The objectives of the Performance Based Logistics initiative are to compress the supply chain, eliminate non-value-added steps, and improve readiness for major weapon systems and commodities. The Future Logistics Enterprise is a series of six initiatives that were launched in September 2001 by the Deputy Under Secretary of Defense (Logistics and Materiel Readiness). The Future Logistics Enterprise is the DoD strategic vision to accelerate logistics improvement to enhance support to the warfighter. The primary objective of the Future Logistics Enterprise is to ensure consistent, reliable support that meets the warfighter requirements through enterprise integration and end-to-end customer service. The objective of the Base Realignment and Closure initiative is to realign the DoD military base structure and examine and implement opportunities for greater joint activity. The Office of the Inspector General is performing a series of audits in support of the Performance Based Logistics and Future Logistics Enterprise initiatives. In addition, the Office of the Inspector General is providing assistance to DoD in support of its supply and storage and industrial Base Realignment and Closure Joint Cross Service Groups that are analyzing common business-oriented support functions.

Discussion

During fiscal year 2003, 69 DoD audit community reports addressed a broad range of logistics issues. Topics included maintenance depot materiel control deficiencies, international DoD airfreight tenders, transportation subsidies, inventory management, contractor logistics support, and the implementation of the Future Logistics Enterprise Condition Based Maintenance initiative.

One Office of the Inspector General report found that DoD had not made effective use of the North Atlantic Treaty Organization Maintenance and Supply Organization to obtain logistics support on weapon systems held in common by North Atlantic Treaty Organization nations. As a result, the Military Departments could incur surcharges when using existing weapon system partnership agreements. For example, the Army could incur about $1 million in additional costs for its projected fiscal year 2004 helicopter component maintenance and repair workload. Also, the Navy could experience reduced readiness while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize the additional potential benefits of consolidated procurement of supplies, storage, and services offered by using the North Atlantic Treaty Organization Maintenance and Supply Organization.

The term "performance-based logistics contract" means a contract in which the contractor shall meet reliability, availability, and responsiveness requirements for logistical support, resulting in improved product effectiveness while reducing total ownership costs. DoD policy is to aggressively pursue Performance Based Logistics as the preferred method of providing weapon system logistics support. All new weapons should use Performance Based Logistics if justified by business case analysis and all legacy weapons should transition to Performance Based Logistics by 2005 if justified by business case analysis. Based on two Office of Inspector General audits of one military service, some business case analyses used to support Performance Based Logistics decisions have used unreliable and questionable data and may have overstated the likely benefits of Performance Based Logistics. Also, DoD management had not developed effective metrics to evaluate Performance Based Logistics performance, both technical and cost.

Infrastructure and Environment

The challenge in managing the 638 major military installations and other DoD sites is to provide reasonably modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. In the past year, the Army and the Navy completely reorganized the way they manage their installations. With the stand up of the Army's Installations Management Agency and the Navy's Commander of Naval Installations, those two Military Departments shifted authority and responsibility for installation sustainment and the associated funding. The Military Departments need to evaluate and measure the impacts on readiness, installation funding, and installation programs to judge the effectiveness of the organizations.

This challenge is complicated by the need to minimize spending on infrastructure, so that funds can be used instead on weapons modernization and other priorities. Unfortunately, there is an obsolescence crisis in the facilities area itself, and environmental requirements are continually growing. Further, The DoD maintains more facility infrastructure than needed to support its forces. DoD estimates there is 20 to 25 percent more base capacity than needed. Maintaining those facilities diverts scarce resources from critical areas.

Inspector General Assessment of Progress

The DoD has struggled with an aging and excess infrastructure for decades. However, the Department has been making progress this year in defining all of the infrastructure problems as it begins the Base Realignment and Closure process for 2005. The planned oversight and breadth of Base Realignment and Closure 2005 far exceeds prior Base Realignment and Closure efforts in 1989, 1991, 1993 and 1995.

Discussion

Transformation through Base Realignment and Closure poses a significant challenge and opportunity for DoD. Base Realignment and Closure 2005 should eliminate excess physical capacity and convert DoD infrastructure into a more efficient structure that provides opportunities for greater joint activity. As part of the challenge, DoD must meet the timelines established in law and use certified data that are accurate and complete to develop the recommendations. Another critical aspect of the Base Realignment and Closure challenge facing DoD is to have a fair and accurate process that will withstand General Accounting Office and Base Realignment and Closure Commission scrutiny.

The Defense Department is the world's largest steward of properties, responsible for more than 46,425 square miles in the United States and abroad—nearly five and-a-half times the size of the state of New Jersey—with a physical plant of some 621,850 buildings and other structures valued at approximately $600 billion. These installations and facilities are critical to supporting our military forces, and they must be properly sustained and modernized to be productive assets. The goal of the Department is a 67-year replacement cycle for facilities. The replacement cycle was reduced from a recapitalization rate of 192 years to 101 years in fiscal year 2002. However, fiscal year 2003 funding levels will only allow recapitalization on a 149-year cycle.

At the start of fiscal year 2001, the Military Departments owned 1,612 electric, water, wastewater, and natural gas systems worldwide. The Department has implemented an aggressive program to privatize utility systems and set a milestone of privatizing at least 65 percent of the available utility systems by September 2004. In addition, while installation commanders must strive to operate more efficiently, they must do so without sacrificing in areas that enhance their ability to operate in the event of a terrorist attack on our homeland. Comprehensive plans for preventing sabotage and responding to attacks on water or power at military installations will be complicated by civilian control of utilities.

The DoD has an estimated $55.7 billion in environmental liabilities as of June 30, 2003. This daunting task seems to be never ending, and indeed, liabilities may be increased when installations are selected for closure. DoD continues to attempt to correct past material control deficiencies in estimating environmental liabilities, and in performing a comprehensive inventory of unexploded ordinance on inactive DoD ranges and calculating the resulting environmental liability. Accordingly, DoD continues to need to improve documentation and supervisory review of environmental liability estimates.

The DoD audit agencies issued 39 reports on infrastructure and environmental issues during fiscal year 2003. The reports addressed topics such as the DoD alternative fuel vehicle program, explosives safety program oversight, privatization of family housing, implementation of the Rural Development Act of 1972, and protection of the European Theater's Nuclear Command and Control System and capabilities against radio frequency threats.

Part 5:
Appendices

Appendix A: Detailed Performance Metrics

Performance Metric: Active Component end strength no more than 2% over the fiscal year authorization (at the end of each quarter)

Active Component	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Authorized/Actual*
Army	482,170 (+0.5%)	480,801 (+0.2%)	486,542 (+1.4%)	480,000/499,301 **(+4.0%)**
Navy	373,193 (+0.3%)	377,810 (+1.4%)	383,108 (+1.9%)	375,700/382,235 (+1.7%)
Marine Corps	173,321 (+0.5%)	172,934 (+0.2%)	173,733 (+0.7%)	175,000/177,779 (+1.6%)
Air Force	355,654 (-1.4%)	353,571 (-1.0%)	368,251 ***(+2.6%)***	359,000/375,062 **(+4.5%)**
Note: Previous performance data reported authorized end strength, not actual end strength. *Preliminary data as of October 31, 2003				

FY 2003 Quarterly Metric

1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(<2% of Auth)	(<2% of Auth)	(<2% of Auth)	(< 2% of Auth)

FY 2004 Quarterly Metric

1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(<2% of Auth)	(< 2% of Auth)	(<2% of Auth)	(<2% of Auth)

Metric Description. Service end-strength authorizations are set forth in the National Defense Authorization Act for the fiscal year. Services are required to budget and execute to that end strength by the end of the fiscal year. The Services' actual end strength for each quarter will be evaluated against the authorized strength for that fiscal year. By law, the Service Secretaries may authorize operating up to 2% above the authorized end strength, and the Secretary of Defense may authorize the Services be up to 3% above their authorized end strength for that fiscal year, if determined to be in the national interest. FY 2003 is the first year that quarterly comparisons will be made.

Verification &Validation Method. The Directorate for Information Operations and Reports of the Washington Headquarters Service publishes the official end strength for the Services monthly. Preliminary numbers are available 3 weeks after the end of the month, and final numbers are available 5 weeks after the end of the month. The final numbers will be compared to the authorized end strengths for each of the active Components; the difference of the actual from the authorized end strengths will be calculated, as will the percentage delta from the authorized end strength. The resultant percentage will then be checked against the metric. This review is conducted at the directorate level. The results are provided to the leadership when a Component's actual end strength is not within 2% of the authorized end strength.

Performance Results for FY 2003. In his Declaration of National Emergency by Reason of Certain Terrorist Threats, the President, among other things, waived the end-strength requirement during a national emergency. The Army and Air Force exceeded the 3% criterion; however the Navy and Marine Corps stayed within the 2% limit. Service budget submissions for FY 2004 indicate the Services will meet their authorized strengths.

Appendix A: Detailed Performance Metrics

Performance Metric: Reserve Component Selected Reserve end strength within 2% of the fiscal year authorization (at the end of each quarter)

Reserve Component	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Authorized/Actual
Army National Guard	353,045 (+0.9%)	351,829 (+0.4%)	351,078 (+0.3%)	350,000/351,089 (+0.3%)
Army Reserve	206,892 (+0.9%)	205,628 (+0.2%)	206,682 (+0.8%)	205,000/211,890 ***(+3.4%)***
Naval Reserve	86,933 (-3.7%)	87,913 (-1.1%)	87,958 (+1.1%)	87,800/88,156 (+0.4%)
Marine Corps Reserve	39,667 (+0.1%)	39,810 (+0.6%)	39,905 (+0.9%)	39,558/41,046 ***(+3.8%)***
Air National Guard	106,365 (-0.3%)	108,485 (+0.4%)	112,075 ***(+3.4%)***	106,600/108,137 (+1.4%)
Air Force Reserve	72,340 (-1.9%)	74,869 (+0.7%)	76,632 ***(+2.6%)***	75,600/74,754 (-1.1%)
Coast Guard Reserve	7,965 (-0.4%)	7,976 (-0.3%)	7,816 ***(-2.3%)***	9,000/7,720 ***(-14.2%)***
Note: Previous performance data reported authorized end strength, not actual end strength.				

FY 2003 Quarterly Metric

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Army National Guard	348,415 (-0.4%)	346,740 (-0.9%)	346,482 (-1.0%)	351,089 (+0.3%)
Army Reserve	205,317 (+0.2%)	207,988 (+1.5%)	210,679 ***(+2.8%)***	211,890 ***(+3.4%)***
Naval Reserve	88,441 (+0.7%)	86,683 (-1.3%)	87,382 (-0.5%)	88,156 (+0.4%)
Marine Corps Reserve	39,773 (0.5%)	40,583 ***(+2.6%)***	41,768 ***(+5.6%)***	41,046 ***(+3.8%)***
Air National Guard	110,947 ***(+4.1%)***	109,284 ***(+2.5%)***	108,358 (+1.6%)	108,137 (+1.4%)
Air Force Reserve	75,769 (+0.2%)	74,730 (-1.1%)	74,069 (-2.0%)	74,754 (-1.1%)
Coast Guard Reserve	7,865 ***(-12.6%)***	7,707 ***(-14.4%)***	7,810 ***(-13.3%)***	7,720 ***(-14.2%)***

FY 2004 Quarterly Metric

1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
(+/- 2% of Auth)	(+/- 2% of Auth)	(+/- 2% of Auth)	(+/- 2% of Auth)

Metric Description. Component end strength authorizations are set forth in the National Defense Authorization Act for the fiscal year. Components are compelled to budget and execute to that end strength by the end of the fiscal year. The Component actual end strength for each quarter will be evaluated against the authorized end strengths for that fiscal year. By law, the Secretary of Defense may authorize the Components to vary, by no more than 2%, their authorized end strength for that fiscal year, if determined to be in the national interest.

V&V Method. The Defense Manpower Data Center publishes the official end strength for the Components monthly from data in the Reserve Component Common Personnel Data System (RCCPDS). The data are developed from the input provided by the Components in their feeder systems to RCCPDS. Preliminary numbers are available 4 weeks after the end of the month, and final numbers are available 5 weeks after the end of the month. These numbers are compared to the authorized end strengths. Component manual data may be accepted under extreme circumstances.

Performance Results for FY 2003. In his Declaration of National Emergency by Reason of Certain Terrorist Threats, the President, among other things, waived the end-strength requirement during the time of national emergency. Components, however, have been directed to attempt to meet the 2% criterion, though exceptions are authorized based on the operational situation. Two Components (Army Reserve and the Marine Corps Reserve) exceeded the 2% variance goal in FY 2003. The primary reason for those two components exceeding their authorized levels is directly attributable to the ongoing mobilization. The Coast Guard Reserve missed their authorized strength by 1,280 or 14.2%. However, the US Coast Guard comes under the new Department of Homeland Security not the Department of Defense.

Appendix A: Detailed Performance Metrics

Performance Metric: Enlisted recruiting quality

Category	FY 2000 Active/ Reserve Actual	FY 2001 Active/ Reserve Actual	FY 2002 Active/ Reserve Actual [a]	FY 2003 Actual/ Reserve Actual
Percentage of recruits holding high school diplomas (Education Tier 1)	93/90	93/89	94/89	95/87
Percentage of recruits in AFQT categories I–IIIA	66/65	66/64	70/66	72/66
Percentage of recruits in AFQT category IV	0.9/1	0.8/1	0.6/1.1	0.2/1.5

NOTE: AFQT = Armed Forces Qualification Test. The AFQT is a subset of the standard aptitude test administered to all applicants for enlistment. It measures math and verbal aptitude and has proven to correlate closely with trainability and on the job performance.

[a] Targets are the same for the Active and Reserve Components.

Metric Description. Quality benchmarks for recruiting were established in 1992 based on a study conducted jointly by DoD and the National Academy of Sciences. The study produced a model linking recruit quality and recruiting resources to the job performance of enlistees. As its minimum acceptable quality thresholds, the Department has adopted the following recruiting quality targets derived from the model: 90% in education tier 1 (primarily high school graduates), 60% in AFQT categories I–IIIA (top 50 percentiles), and not more than 4% in AFQT category IV. Adhering to these benchmarks reduces personnel and training costs, while ensuring the force meets high performance standards.

V&V Method. Data collected as part of the enlistment process are routed, reviewed, and managed using the same mechanisms employed for the performance metric concerning recruiting quantity. The data systems and verification methods are discussed in the table below.

Data Flows for Enlisted Recruiting

Service	Input	Cross-Check	Aggregate	V&V
Army	REQUEST (Recruiter Quota System) database	Against manually assembled reports that the Army Recruiting Command provides to Army headquarters	HQDA Decision Support System	Army headquarters compared automated data and manually compiled reports monthly
Navy	PRIDE (Personalized Recruiting for Immediate and Delayed Enlistment) database	Recruit Training Center databases	PRIDE database	Office of Navy Personnel reviews input monthly

Appendix A: Detailed Performance Metrics

Data Flows for Enlisted Recruiting				
Service	Input	Cross-Check	Aggregate	V&V
Air Force	AFRISS (Air Force Recruiting Information Support System) databases	MILPDS (Military Personnel Data System)	MILPDS and AFRISS	Commanders of recruiting stations review inputs daily; Air Force Recruiting Service reviews data monthly and conducts periodic audits
Marine Corps	MCRISS-RS (Marine Corps Recruiting Information Support System-Recruiting Station)	Recruiting districts download information from MCRISS-RS	MCRISS-RS	District and regional staff review data monthly; Marine Corps Recruiting Command corrects any discrepancies in Monthly Enlisted Quota Attainment Brief (MATBRF).

Performance Results for FY 2003. The Department largely met its goals for enlisted recruit quality in FY 2003 as it did in FY 2002. Performance surpassed objectives in all but one area—high school diploma graduate accessions in the Reserve Component. Shortfalls were within 6 percentage points and occurred in only two Components (Army National Guard and Naval Reserve). In addition, the Air National Guard switched data systems, resulting in data quality problems.

(From Reserve Input): The Reserve Components, in the aggregate, met their AFQT I-IIIA goal, but not their Tier 1/HSDG (High School Diploma Graduate) goal for enlisted recruit quality in FY 2003. However, the data above is drawn from personnel data systems that are incomplete or know to contain errors. For example, a recent personnel data system conversion in the Air National Guard resulted in lost or corrupted quality data. Historically, Air National Guard quality is equal to that in the Air Force Reserve, and we believe that continues to be the case. The Naval Reserve policy requires that all non-prior service recruits have at least a high school diploma. Unfortunately, their personnel data system contains inaccurate data or vacant data fields making accurate quality reporting problematic. The Department will work with both the Air National Guard and the Naval Reserve to improve reporting capabilities. The Army National Guard continues to struggle to meet the Department's quality benchmark for high school diploma graduates. We are committed to achieving recruiting quality in all components in FY 2004.

Enlisted Recruiting: FY 2003 Performance	
Army, Active	93% Tier 1 / 73% Cat I-IIIA / 0.3%Cat IV
Army, Reserve	93% Tier 1 / 68% Cat I-IIIA / 0.3%Cat IV
Army, National Guard	84% Tier 1 / 60% Cat I-IIIA / 3.0%Cat IV
Navy, Active	94% Tier 1 / 66% Cat I-IIIA / 0.0% Cat IV
Navy, Reserve	84% Tier 1 / 70% Cat I-IIIA / 0.0% Cat IV
Air Force, Active	99% Tier 1 / 81% Cat I-IIIA / 0.0% Cat IV
Air Force, Reserve	93% Tier 1 / 73% Cat I-IIIA / 0.0% Cat IV
Air Force, National Guard	68% Tier 1 / 70% Cat I-IIIA / 1.0% Cat IV
Marine Corps, Active	98% Tier 1 / 69% Cat I-IIIA / 0.4% Cat IV
Marine Corps, Reserve	97% Tier 1 / 80% Cat I-IIIA / 2.0% Cat IV

Appendix A: Detailed Performance Metrics

Performance Metric: Enlisted recruiting quantity

Category	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/Actual
Number of enlisted Active Component accessions	202,917	196,355	196,472	184,366/184,881
Number of enlisted Reserve Component accessions	152,702	141,023	147,129	136,297/133,075

Metric Description. Department-wide targets for enlisted recruiting represents the projected number of new Service members needed each year to maintain statutory military end strengths and appropriate distributions by rank, allowing for discharges, promotions, and anticipated retirements. As personnel trends change during the year, Active and Reserve Component recruiting objectives may be adjusted.

V&V Method. Each Service maintains data on new enlistments in a dedicated computer system. Automated reports, produced monthly, are used to track progress toward meeting recruiting targets and to set new monthly targets. The data systems and verification methods are discussed in the table below.

Data Flows for Enlisted Recruiting				
Service	Input	Cross-Check	Aggregate	V&V
Army	REQUEST (Recruiter Quota System) database	Against manually assembled reports that the Army Recruiting Command provides to Army headquarters	HQDA Decision Support System	Army headquarters compared automated data and manually compiled reports monthly
Navy	PRIDE (Personalized Recruiting for Immediate and Delayed Enlistment) database	Recruit Training Center databases	PRIDE database	Office of Navy Personnel reviews input monthly
Air Force	AFRISS (Air Force Recruiting Information Support System) databases	MILPDS (Military Personnel Data System)	MILPDS and AFRISS	Commanders of recruiting stations review inputs daily; Air Force Recruiting Service reviews data monthly and conducts periodic audits
Marine Corps	MCRISS-RS (Marine Corps Recruiting Information Support System-Recruiting Station)	Recruiting districts download information from MCRISS-RS	MCRISS-RS	District and regional staff review data monthly; Marine Corps Recruiting Command corrects any discrepancies in Monthly Enlisted Quota Attainment Brief (MATBRF).

Appendix A: Detailed Performance Metrics

Performance Results for FY 2003. All Active Components met or exceeded their recruiting quantity goal for FY 2003, and achieved Delayed Entry Program levels for FY 2004. Army National Guard missed its FY 2003 quantity recruiting goal by 12.6 percent.

(From Reserve input) Five of six DoD Reserve Components met or exceeded their recruiting quantity goal for FY 2003. Only the Army National Guard failed to achieve its FY 2003 recruiting objective. Although they finished the year with a strong fourth quarter recruiting effort, their shortfall was 7,798 against a mission of 62,000 (13 percent). Almost half of this shortfall was in prior service recruiting. This was due in a large part to the stop loss imposed in the Active Army, resulting in fewer potential recruits in the prior service pool. It is important to note that, their shortfall not withstanding, the Army National Guard achieved their authorized end strength. Attrition was significantly lower than programmed. The Office of the Secretary of Defense will work closely with the Army National Guard to full assess the causes and the implications of their recruiting shortfall.

Enlisted Recruiting: FY 2003 Performance	
Army, Active	73,800 target/74,132 achieved
Army, Reserve	40,900 target/41,851 achieved
Army, National Guard	62,000 target/54,202 achieved
Navy, Active	41,065 target/41,076 achieved
Navy, Reserve	12,000 target/12,772 achieved
Air Force, Active	37,000 target/37,144 achieved
Air Force, Reserve	7,512 target/7,557 achieved
Air Force, National Guard	5,712 target/8,471 achieved
Marine Corps, Active	32,501 target/32,530 achieved
Marine Corps, Reserve	8,173 target/8,222 achieved

Appendix A: Detailed Performance Metrics

Performance Metric: Active enlisted retention goal

Service	FY 2000 Actual	FY 2001[a] Actual	FY 2002 Actual	FY 2003 Target/Actual
Army				
Initial	21,402	20,000	19,433	19,821/21,838
Mid-career	24,118	23,727	23,074	18,422/19,509
Career	25,791	21,255	15,700	12,757/12,804
Navy				
Initial	29.6%	56.9%	58.7%	56%/61.8%
Mid-career	46.5%	68.2%	74.5%	73%/76.7%
Career	56.6%	85.0%	87.4%	86%/87.9%
Marine Corps				
First term	26.6%[c]	6,144[b]	6,050	6,025/6001
Subsequent	63.4%[c]	5,900[b]	7,258	6,172/5815
Air Force				
First Term	53.1%	56.1%	72.1%	55%/60.5%
Mid-career	69.7%	68.9%	78.3%	75%/72.9%
Career	90.8%	90.2%	94.6%	95%/95.2%

[a] Starting in FY 2001, Navy changed the way it calculates retention. The Navy no longer includes personnel who are ineligible to reenlist in retention calculations, so the percentage better reflects the number of people who choose to stay at a given reenlistment point.

[b] In FY 2001, the Marines established numeric goals for retention and established subsequent term goals for the first time.

[c] FY 2000 rates are from a previous program showing achievements for 2nd term personnel.

Definitions:

Army: Mid-career: 7 to 10 YOS; career: 10 to 20 YOS
Navy: Mid-career: 6+ to 10 YOS; career 10+ to 14 YOS
Air Force: Mid-career: 6 to 10 YOS; career 10 to 14 YOS
YOS = Years of service

Metric Description. The Services determine, within the zone of eligibility, their annual retention goals. Each Service is given latitude in how they establish their categories, establish goals, and track attainment of those goals. For that reason, two metrics are used: number of people retained (used by the Army and Marine Corps) and the percentage of eligible people retained (used by the Air Force and Navy). The annual goals relative to either metric are dynamic and can change during the year of execution.

V&V Method. Each month, the Services' enlisted retention offices will be queried for their goal and retention statistics for that month. Data normally are available two weeks after the end of the month. The Office of the Under Secretary of Defense for Personnel and Readiness reviews retention data obtained from the systems (identified in the following table) monthly. The information is evaluated within the context of recruiting performance, attrition trends, and retention of both officer and enlisted personnel in the Active and Reserve Components. The results of these assessments guide decisions on resource allocations and associated force management initiatives. The following table displays the data systems and data flow.

Appendix A: Detailed Performance Metrics

Data Flow for Active Retention			
Service	**Input System**	**Aggregate System**	**V&V Method**
Army	Reenlistment, Reclassification, and Reserve Component Assignment System (RETAIN) Standard Installation/Division Personnel System (SIDPERS)	Active Army Military Management Program (AAMMP)	Personnel commands report data weekly to the Deputy Chief of Staff, G-1. Major commands process data via RETAIN and report it to ODCS, G-1, quarterly. RETAIN data and SIDPERS updates are used to verify AAMMP assumptions and revise policies as necessary.
Navy	Navy Enlisted System (NES) Officer Personnel Information System (OPINS)	NES/OPINS	Data for enlisted personnel are reported monthly. Data for officers are gathered quarterly. Functional managers, analysts, and policymakers review the data to verify accuracy and monitor trends.
Air Force	Personnel Data System (PDS)—maintained by Headquarters, Air Force Personnel Center (HQ AFPC/DPS)	PDS	Air Force staff reviews retention programming codes and data aggregation methods annually.
Marine Corps	Total Force Retention System (TFRS)—used by commanders to request permission to reenlist individual Marines Marine Corps Total Force System (MCTFS)—transmits headquarters decisions on TFRS requests to the respective commands and, for those requests that are approved, relays reenlistment data back to headquarters	MCTFS	TFRS cross-checks MCTFS. Written guidance for TFRS is provided to field units. Use of data elements in MCTFS is standardized throughout the Marine Corps.

Performance Results for FY 2003. The success of our Armed Forces relies heavily on our ability to retain experienced personnel. The retention successes realized are the result of the effort and support of commanders and Congress and must continue beyond FY 2004. There was an improved active duty retention trend in FY 2002 and FY 2003, but we review this with caution, because the full effects of lifting a majority of the stop loss programs are yet to be felt. For FY 2003, the Army, and Navy met or exceeded all of their goals; the Marine Corps barely missed its first term goal. Effects of an improving economy and the waning emotional patriotic high of decisive victory in IRAQI FREEDOM will combine to increase pressure on our retention programs.

Appendix A: Detailed Performance Metrics

Performance Metric: Selected Reserve enlisted attrition ceiling

Selected Reserve Component	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/Actual
Army National Guard	18.0	20.0	20.6	18.0/18.1
Army Reserve	29.4	27.4	24.6	28.6/22.1
Naval Reserve	27.1	27.6	26.5	36.0/26.5
Marine Corps Reserve	28.4	26.4	26.0	30.0/21.4
Air National Guard	11.0	9.6	7.3	12.0/12.7
Air Force Reserve	13.9	13.4	8.7	18.0/17.0
Note: All numbers are percentages representing total losses divided by average strength.				

Metric Description. In assessing retention trends in the Reserve Components, DoD uses attrition rates rather than retention rates. Attrition is computed by dividing total losses from the Selected Reserve Component for a fiscal year by average personnel strength of the Selected Reserve for that year. This metric is preferable to retention rates because only a small portion of the Reserve population is eligible for reenlistment during any given year. In addition to monitoring attrition, the Department has established annual attrition targets for reserve personnel. These targets, which took effect in FY 2000, represent the maximum number of losses deemed acceptable in a given fiscal year—that is, they establish a ceiling for personnel departures. The attrition goal is actually a ceiling, which is not to be exceeded.

V&V Method. Monthly updates of databases maintained by the individual Reserve Components feed the Reserve Component Common Personnel Data System, operated by the Defense Manpower Data Center (DMDC). DMDC is responsible for monitoring data quality. Quarterly workshops, conducted by the Office of the Assistant Secretary of Defense for Reserve Affairs, provide a forum for reviewing the data and recommending ways to improve attrition and meet annual projections.

Performance Results for FY 2003. The Presidential proclamation for the Declaration of National Emergency by Reason of Certain Terrorist Threats and accompanying Executive Order, gave the Military Departments the authority to implement "stop loss" programs in varying degrees: For example the Marine Corps stopped the separation of all of its personnel for a period of time, then focused on certain specialties, while the Army, Navy, and Air Force focused on certain skills or skill/grade mix for a period of time, and the Army then moved to a Reserve component unit stop loss program for those units notified of a pending mobilization. Even though by the year end all Services, except the Army, had cancelled their stop loss programs, the Services established "transition" periods (generally 90 days) after demobilization to allow for the members to take care of matters and get moved back into their civilian lives before they would be allowed to be released from the military. This, coupled with Service members performing duties in support of the war on terrorism, kept the enlisted attrition rates near or below the ceilings across all Selected Reserve Components. Only the Army and Air National Guard components exceeded their ceilings, but not by much. The overall Reserve component attrition rate of 18.4% is the lowest since 1991, when a "stop loss" program was instituted for Operation Desert Storm.

Appendix A: Detailed Performance Metrics

Performance Metric: Satisfaction with military health plan

Metric	FY 2000 Actual[a]	FY 2001 Actual[b]	FY 2002 Actual[c]	FY 2003 Target[d]/Actual
Percentage satisfied with military health plan	39.6	44.6	46.5	≥ Civ. Avg. 59% / 51.2%

[a] Survey fielded in November 1999.
[b] Surveys fielded in January, April, and July 2001.
[c] Surveys fielded in October 2001 and January, April, and July 2002.
[d] The civilian average is based on a representative population from the national Consumer Assessment of Health Plans Survey Database (CAHPSD) for the same time period and this will be the target for the Military Health System. (Example: A July 2003 survey would be compared to July 2003 data from the CAHPSD.) Due to the nature of the program, only a DoD-level goal is tracked.

Metric Description. A person's satisfaction with his or her health plan is a key indicator of the performance of the Military Health System (MHS) in meeting its mission to provide health care to the 8 million eligible beneficiaries. For this metric, the following survey item is used:

> We want to know your rating of all your experience with your health plan. Use any number from 0 to 10 where 0 is the worst health plan possible, and 10 is the best health plan possible. How would you rate your health plan now?

Satisfaction is measured as the percentage of respondents (weighted by appropriate sampling weights) who answer 8, 9, or 10.

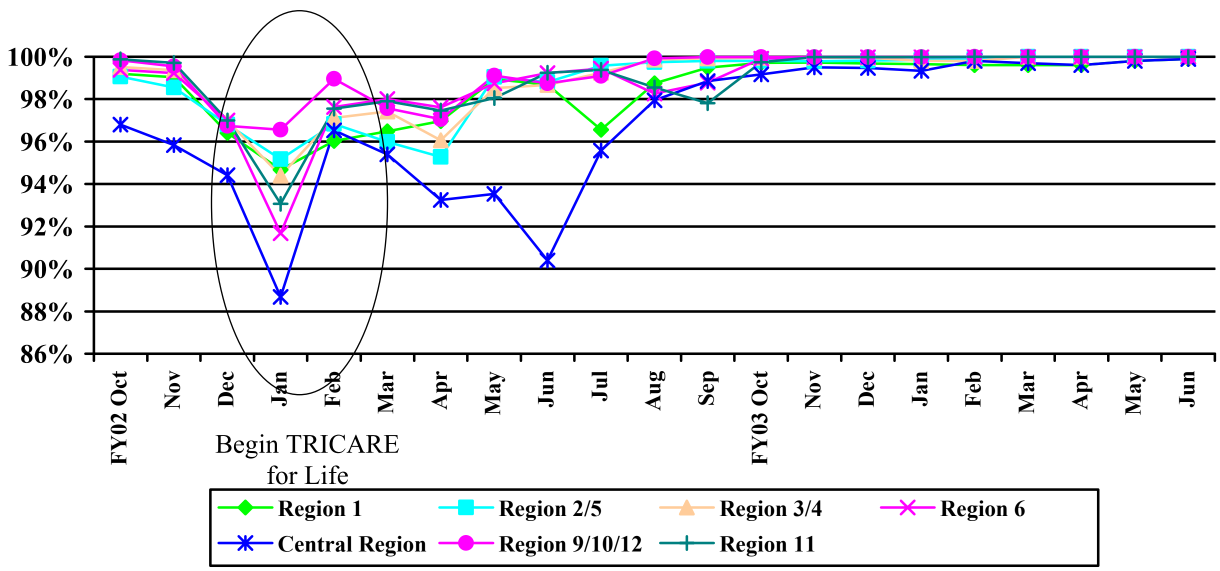
The survey, fielded quarterly, asks respondents questions about the plan during the prior year. Currently, the results for the year are based on the surveys fielded during the fiscal year, which means the results are actually based on the respondent's interactions with the health system during the prior fiscal year.

The goals established for this metric in FY 2003 is considered a stretch goals that will drive the organization forward, but will likely not be achieved during that years. For FY 2004, the goal has been changed to reflect the desire to make the goal achievable during the current year, while still closing the gap with the civilian sector in three years. These goals are established based on a civilian survey, and will be updated on an annual basis.

V&V Method. A contractor prepares the data for analysis; data preparation includes editing, cleaning, implementing the coding scheme, weighting the data, and constructing the analytic variables. The contractor provides appropriate data cleaning and checking procedures to ensure a high level of quality control each quarter. The contractor edits the data consistent with the skip patterns in the questionnaire and includes the specifications of such recoding in the survey documentation. The contractor removes problem records from the database. Problem records include blank records, multiple records from the same respondent (the contractor keeps the record with the greatest amount of information), and records from ineligible respondents.

Performance Results for FY 2003. During FY 2003, significant improvement was made in closing the gap in satisfaction between the Military Health System and the civilian sector. The satisfaction level increased from 46.5% in FY 2002 to 51.2% in FY 2003. A significant reason for the increase is related to improved performance in the area of claims processing, where 99% of the claims are being processed with the standard of 30 days through the first 3 quarters of FY 2003, compared to 97% for FY 2002. While this improvement in claims processing was achieved in FY 2003, during the next couple of years, the next version of TRICARE support contracts will be implemented, and claim processing performance will need to stay at current levels to maintain overall satisfaction with the plan. This is a significant concern, because during FY 2002, when TRICARE for Life was implemented, claims processing performance dropped below 95% during the initial start-up before returning to original levels. In addition to claims processing, Customer Service and Access improvements will be needed to achieve the ultimate goal of meeting or exceeding the civilian average.

Percent of Claims Processed in 30 Days



Appendix A: Detailed Performance Metrics

Performance Metric: Transforming DoD training (completed)

Metric	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/Actual
Training tasks completed	N/A[a]	N/A[a]	N/A[a]	3 tasks[b]/1[b]

[a] This is a new initiative and no historical data are available.

[b] 2003 tasks:

- Develop training transformation (T2) implementation plan by April 2003 (Complete).
- Complete near-term tasks in the T2 strategic plan by October 2003 (superceded by DEPSEC approved implementation plan June 10, 2003).
- Obtain joint certification and accreditation of National Training Center (NTC) by October 2003 (superceded by DEPSEC approved implementation plan June 10, 2003).

Metric Description. The Department's vision for training transformation (T2) is to provide dynamic, capabilities-based training for DoD in support of national security requirements across the full spectrum of service, joint, interagency, intergovernmental, and multinational operations. The Defense Program Guidance tasked the Under Secretary of Defense for Personnel and Readiness—USD (P&R)—with coordinating requirements, developing plans, and overseeing T2. For this initial metric, several critical tasks and milestone events are identified to track near-term progress in achieving T2 goals. A new capability to develop and report T2 metrics has been established in the Deputy Secretary of Defense approved Training Transformation Implementation Plan, approved June 10, 2003. The Joint Assessment and Enabling Capability (JAEC) will is providing an expanded framework for measuring the outcomes of T2 based upon the requirements of the Balanced Score Card.

V&V Method. The USD (P&R) has responsibility for overseeing and reporting the status of the T2 effort and has established several forums to assist in reviewing, coordinating, and approving plans, programs, and resource decision documents. The joint Integrated Process Team (action officer level), chaired by the Readiness and Training Office, will regularly review the status of T2 tasks and provide input to the Deputy Under Secretary of Defense for Readiness.

Performance Results for FY 2003. The Department is actively engaged in executing the requirements and resources approved by the Secretary of Defense in the Training Transformation Implementation Plan and its associated Resource Program Plan. During FY 2003, the Congress approved an Omnibus Reprogramming Action to provide the additional resources considered critical to implement T2 tasks and support the initial establishment of the Joint National Training Capability. The FY 2004 President's Budget request reflects $179.7 million in FY 2004 for the Department to continue to implement the approved goals and milestones for this important initiative.

The resources that have been reprogrammed in FY 2003 and budgeted for in FY 2004 for transforming DoD training have given the program an excellent start. Steps to achieve Initial Operating Capability (IOC) for the Joint National Training Capability in October 2004 are well underway.

Appendix A: Detailed Performance Metrics

Performance Metric: Monitor the Status of Defense Technology Objectives (DTOs)

Metric	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/Actual
Percentage of DTOs evaluated as progressing satisfactorily toward goals[a]	97	96	97	$\geq$70/96
DTO evaluated in biannual review[b]	166	180	163	149
Total number of DTOs[b,c]	347	326	401	386

[a] "Progressing satisfactorily" includes DTO rated as "green" or "yellow."

[b] The number of DTOs evaluated and the total number of DTOs are provided for information only and no targets are established.

[c] The total number of DTOs is the sum of all DTOs contained in the Defense Technology Objectives for the Joint Warfighting Science and Technology Plan and the Defense Technology Area Plan, dated February of the Calendar Year prior to the Fiscal Year the TARA reviews are conducted.

Metric Description. Technological superiority has been, and continues to be, a cornerstone of our national military strategy. Technologies such as radar, jet engines, nuclear weapons, night vision, smart weapons, stealth, the Global Positioning System, and vastly more capable information management systems have changed warfare dramatically. Today's technological edge allows us to prevail across the broad spectrum of conflict decisively and with relatively few casualties. Maintaining this technological edge has become even more important as the size of U.S. forces decreases and high-technology weapons are now readily available on the world market. Future warfighting capabilities will be substantially determined by today's investment in science and technology (S&T).

Our S&T investments are focused and guided through a series of Defense Technology Objectives (DTOs) developed by the senior planners working for the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. Each of these objectives highlights a specific technological advancement that will be developed or demonstrated, the anticipated date the technology will be available, the specific benefits that should result from the technological advance, and the funding required (and funding sources) to achieve the new capability. This list of objectives also distinguishes specific milestones to be reached and approaches to be used, quantitative metrics that will indicate progress, and the customers who will benefit when the new technology is eventually fielded. This metric measures the percentage of DTOs that are progressing satisfactorily toward the goals established for them.

V&V Method. Technology Area Review and Assessment (TARA) teams—independent peer review panels composed of approximately six experts in relevant technical fields from U.S. government agencies, private industry, and academia—assess the DTOs for each program every 2 years. The reviews are conducted openly; observation by stakeholders (typically, senior S&T officials, members of the joint staff, and technology customers) is welcomed.

Appendix A: Detailed Performance Metrics

The TARA teams assess the objectives in terms of three factors—technical approach, funding, and technical progress—and rate the programs as follows:

- Green—progressing satisfactorily toward goals.
- Yellow—generally progressing satisfactorily, but some aspects of the program are proceeding more slowly than expected.
- Red—doubtful that any of the goals will be attained.

The benefits of these ratings are many. Not only do they reflect the opinions of independent experts, but also they are accepted and endorsed by stakeholders. These reviews result, and will continue to result, in near real-time adjustments being made to program plans and budgets based on the ratings awarded.

Performance Results for FY 2003. The Department met its performance target and no shortfall is projected for FY 2004. Although actual performance continues well above target, the target will be maintained at 70% due to the inherent high risk of failure in technology development.

Appendix A: Detailed Performance Metrics

Performance Metric: Reduce Major Defense Acquisition Program (MDAP) acquisition cycle time (months)

Acquisition Cycle Time	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/ Actual
Acquisition cycle time (for new starts from FY 1992 through FY 2001) (months)	N/A[a]	102	103	<99/104[b]
Acquisition cycle time (for new starts after FY 2001) (months)	N/A[a]	N/A	N/A	<66/93[b]

[a] The December SAR, which reflects the President's budget submit, is used for calculating acquisition cycle time. There were no December 2000 SARs, because a Future Years Defense Program was not included in the FY 2002 President's budget submit.

[b]The FY 2003 Actual is a projection based on preliminary FY 2005 budget data. This projected Actual will be updated as necessary upon release of the December 2003 SARs in April 2004.

Metric Description. Acquisition cycle time is the elapsed time, in months, from program initiation—when the Department makes a commitment to develop and produce a weapon system—until the system attains initial operational capability (IOC). This metric measures the average cycle time across all Major Defense Acquisition Programs (MDAPs). During the 1960s, a typical acquisition took 7 years (84 months) to complete. By 1996, a similar acquisition required 11 years (132 months) from program start to IOC. To reverse this trend, DoD established an objective to reduce the average acquisition cycle time for MDAPs started since 1992 to less than 99 months, a reduction of 25%. We achieved that initial objective. We did so through rapid acquisition with demonstrated technology, time-phased requirements and evolutionary development, and integrated test and evaluation. To continue that improvement, the Department will seek to reduce the average cycle time to less than 66 months for all MDAPs started after FY 2001. To achieve that objective, the Department is introducing improvements to development and production schedules similar to those it initiated for managing system performance and cost. Rapid development and fielding of weapon systems—leveraging new technologies faster—will enable U.S. forces to stay ahead of potential adversaries.

V&V Method. The key measure for this objective is the average elapsed time from program start to IOC, measured in months. Average acquisition cycle time is computed using schedule estimates from Selected Acquisition Reports (SARs). The Department also monitors MDAPs through the Defense Acquisition Executive Summary (DAES) reporting system and the Defense Acquisition Board (DAB) review process. In FY 1998, the Department began to evaluate cycle times of new MDAPs (as well as schedule changes for ongoing programs) during its annual program and budgeting process. For the projected FY 2003 Actual, there are 47 MDAPs in the post-FY 1992 calculation, but only 4 MDAPs in the post-FY 2001 calculation.

Performance Results for FY 2003. The Department saw a relatively small increase (from 103 to 104 months) in the projected average acquisition cycle time for FY 2003. Several programs, such as Black Hawk Upgrade, Land Warrior, and Wideband Gapfiller, were examined and then restructured with improved schedule estimates. Although only a few programs have been restructured, the extensions have affected the average acquisition cycle time.

Appendix A: Detailed Performance Metrics

Performance Metric: Reduce percentage of DoD budget spent on infrastructure (lagged indicator)

Metric	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target/Actual
Percentage of DoD budget spent on infrastructure	45	47	46	44/44
Note: This is a lagged indicator. Projections are based on the FY 2004 President's budget Future Years Defense Program.				

Metric Description. The share of the defense budget devoted to infrastructure is one of the principal measures the Department uses to gauge progress toward achieving its infrastructure reduction goals. A downward trend in this metric indicates that the balance is shifting toward less infrastructure and more mission programs. In tracking annual resource allocations, we use mission and infrastructure definitions that support macro-level comparisons of DoD resources. The definitions are based on the 2001 Quadrennial Defense Review (QDR), the Future Years Defense Program (FYDP), and a soon-to-be-published Institute for Defense Analyses report (*DoD Force and Infrastructure Categories: A FYDP-Based Conceptual Model of Department of Defense Programs and Resources*) prepared for the Office of the Secretary of Defense. The definitions are consistent with the Goldwater-Nichols Department of Defense Reorganization Act of 1986 (P.L. 99-433). This act requires that combat units, and their organic support, be routinely assigned to the combatant commanders and that the Military Departments retain the activities that create and sustain those forces. This feature of U.S. law provides the demarcation line between forces (military units assigned to combatant commanders) and infrastructure (activities retained by the Military Departments). In addition to more precisely distinguishing forces from infrastructure, the force subcategories have been updated to reflect current operational concepts. The infrastructure subcategories, likewise, have been updated and streamlined.

V&V Method. The Department updates the percentage of the budget spent on infrastructure each time the President's budget FYDP database is revised. The Institute for Defense Analyses reviews and normalizes the data to adjust for the effect of definitional changes in the database that mask true content changes. Prior-year data are normalized to permit accurate comparisons with current-year data. Because of these adjustments, there may be slight shifts upward or downward in the targets established for past-year infrastructure expenditures.

Performance Results for FY 2002. The Department estimates that we will have allocated about 44% of total obligational authority to infrastructure activities in FY 2002, down from about 46% in the preceding year. The efficiencies achieved result from initiatives in the QDR and Defense Reform Initiatives, including savings from previous base realignment and closure rounds, strategic and competitive sourcing initiatives, and privatization and reengineering efforts. The Department expects to continue making progress toward reducing its expenditures on infrastructure as a share of the defense budget in FY 2003.

Appendix A: Detailed Performance Metrics

Mission and Infrastructure Categories Used for Tracking the Portion of the DoD Budget Spent on Infrastructure
Mission Categories
Expeditionary forces. Operating forces designed primarily for non-nuclear operations outside the United States. Includes combat units (and their organic support) such as divisions, tactical aircraft squadrons, and aircraft carriers.
Deterrence and Protection Forces. Operating forces designed primarily to deter or defeat direct attacks on the United States and its territories. Also includes agencies engaged in U.S. international policy activities under the direct supervision of the Office of the Secretary of Defense.
Other forces. Includes most intelligence, space, and combat-related command, control, and communications programs, such as cryptologic activities, satellite communications, and airborne command posts.
Infrastructure Categories
Force installations. Installations at which combat units are based. Includes the Services and organizations at these installations necessary to house and sustain the units and support their daily operations. Also includes programs to sustain, restore, and modernize buildings at the installations and protect the environment.
Communications and information infrastructure. Programs that provide secure information distribution, processing, storage, and display. Major elements include long-haul communication systems, base computing systems, Defense Enterprise Computing Centers and detachments, and information assurance programs.
Science and technology program. The program of scientific research and experimentation within the Department of Defense that seeks to advance fundamental science relevant to military needs and determine if the results can successfully be applied to military use.
Acquisition. Activities that develop, test, evaluate, and manage the acquisition of military equipment and supporting systems. These activities also provide technical oversight throughout a system's useful life.
Central logistics. Programs that provide supplies, depot-level maintenance of military equipment and supporting systems, transportation of material, and other products and services to customers throughout DoD.
Defense health program. Medical infrastructure and systems, managed by the Assistant Secretary of Defense for Health Affairs, that provide health care to military personnel, dependents, and retirees.
Central personnel administration. Programs that acquire and administer the DoD workforce. Includes acquisition of new DoD personnel, station assignments, provisions of the appropriate number of skilled people for each career field, and miscellaneous personnel management support functions, such as personnel transient and holding accounts.
Central personnel benefit programs. Programs that provide benefits to Service members. Includes family housing programs; commissaries and military exchanges; dependent schools in the United States and abroad; community, youth, and family centers; child development activities; off-duty and voluntary education programs; and a variety of ceremonial and morale-boosting activities.
Central training. Programs that provide formal training to personnel at central locations away from their duty stations (non-unit training). Includes training of new personnel, officer training and Service academies, aviation and flight training, and military professional and skill training. Also includes miscellaneous other training-related support functions.
Departmental management. Headquarters whose primary mission is to manage the overall programs and operations of DoD and its Components. Includes administrative, force, and international management headquarters, and defense-wide support activities that are centrally managed. Excludes headquarters elements exercising operational command (which are assigned to the "other forces" category) and management headquarters associated with other infrastructure categories.
Other infrastructure. Programs that do not fit well into other categories. They include programs that (1) provide management, basing, and operating support for DoD intelligence activities; (2) conduct navigation, meteorological, and oceanographic activities; (3) manage and upgrade DoD-operated air traffic control activities; (4) support warfighting, war-gaming, battle centers, and major modeling and simulation programs; (5) conduct medical contingency preparedness activities not part of the defense health program; and (6) fund joint exercises sponsored by the Combatant Commanders (COCOMs) or JCS directed. Also included in this category are centralized resource adjustments that are not allocated among the programs affected (e.g., foreign currency fluctuations, commissary resale stocks, and force structure deviations).

Table D-1

Department of Defense
TOA by Force and Infrastructure Category
(FY 2004 $ in Billions)

	FY 1999	FY 2000	FY 2001	FY 2002
Forces				
Expeditionary Forces	129	130	137	147
Deterrence and Protection Forces	8	8	9	13
Other Forces	31	29	31	33
Defense Emergency Response Fund	0	0	0	14
Forces Total	**168**	**167**	**177**	**207**
Infrastructure				
Force Installations	21	23	23	26
Communications & Information	4	4	5	6
Science & Technology Program	8	9	9	10
Acquisition	8	9	9	8
Central Logistics	17	20	18	20
Defense Health Program	20	21	19	26
Central Personnel Administration	9	10	11	7
Central Personnel Benefits Programs	8	8	8	8
Central Training	24	25	26	29
Departmental Management	16	15	15	16
Other Infrastructure	3	4	9	4
Infrastructure Total	**138**	**148**	**152**	**160**
Grand Total	**306**	**315**	**329**	**367**
Infrastructure as a Percentage of Total	**45%**	**47%**	**46%**	**44%**

Appendix A: Detailed Performance Metrics

Performance Metric: Fund to a 67-year recapitalization rate by 2007

Metrics	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/ Actual
Facilities recapitalization metric–FRM (years)	141	192	101	67/149
Facilities sustainment model–FSM (percent)	78[a]	70[b]	89	100/93
[a] FSM did not exist in FY 2000 and FY 2001; these are estimates. Source: DoD Financial Statement, Required Supplemental Information.				

Metric Description. The facilities recapitalization metric (FRM) is a performance indicator that measures the rate at which an inventory of facilities is being recapitalized. The term "recapitalization" means to restore or modernize facilities. Recapitalization may (or may not) involve total replacement of individual facilities; recapitalization often occurs incrementally over time without a complete replacement.

The performance goal for FRM equals the average expected service life (ESL) of the facilities inventory (estimated to be 67 years, based on benchmarks developed by a panel of Defense engineers in 1997). The ESL, in turn, is a function of facilities sustainment. "Sustainment" means routine maintenance and repair necessary to achieve the ESL. To compute a normal ESL, full sustainment levels must be assumed. A reduced ESL results from less than full sustainment. For this reason, the metrics for facilities recapitalization and facilities sustainment are unavoidably linked and should be considered together.

Sustainment levels required to achieve a normal ESL are benchmarked to commercial per unit costs; for example, $1.94 per square foot annually is needed to properly sustain the aircraft maintenance hangar inventory for a 50-year life cycle. The facilities sustainment model (FSM) adjusts these costs to local areas and assigns the costs to DoD Components and funding sources.

The recapitalization rate—measured by FRM in years—is compared to service life benchmarks for various types of facilities. For example, the ESL of a pier is 75 years, and the ESL of a dental clinic is 50 years (provided the facilities are fully sustained during that time). The average of all the ESL benchmarks, weighted by the value of the facilities represented by each benchmark, is 67 years. Weighting is required to normalize the ESL. For example, without weighting, 50 years is the ESL of a hypothetical inventory consisting of administrative buildings (75-year ESL) and fences (25-year ESL). But fences are insignificant compared to administrative buildings—DoD has $22 billion worth of administrative buildings, but only $3 billion worth of fences and related structures—and should not have equal weight. The ESL of this hypothetical inventory when weighted by plant replacement value is 68 years, not 50 years.

For evaluating planned performance, both metrics (FSM and FRM) are converted to dollars (annual funding requirements) and compared to funded programs in the DoD Future Years Defense Program (FYDP). Both metrics can also be used to measure executed performance.

Appendix A: Detailed Performance Metrics

V&V Method. Recapitalization rates are computed according to set procedures for transmitting program and budget data to the Office of the Secretary of Defense (maintained by the Program, Analysis and Evaluation Directorate of the Office of the Secretary of Defense) and set rules as described in the August 2002 document, *Facilities Recapitalization Front End Assessment*. Data collection procedures are quite complex and are derived from multiple sources to include several hundred FYDP program elements, multiple funding appropriations and resources from outside DoD, and hundreds of thousands of real property records. The various data elements are summarized and merged in the Defense Programming Database (DPD) Warehouse, where the recapitalization rate is computed from the data. All the data submitted to the DPD Warehouse are audited for accuracy by multiple DoD offices. The benchmark for the DoD average recapitalization rate goal (67 years) is based on service life benchmarks developed by DoD in 1997.

Sustainment rates are computed in a similar manner. Approximately 400 benchmarks for sustainment are contained in the DoD Facilities Pricing Guide and are each documented for source and estimated quality. These individual cost factors are combined with real property inventory databases by the DoD FSM, which is maintained under contract by R&K Engineering of Roanoke, VA. FSM outputs are merged with programming and budget data contained in the DoD FYDP; merging is done in the DPD Warehouse, where sustainment rates are computed.

Performance Results for FY 2003. These metrics do not yet capture "actual" expenditures as the term "actual" is normally understood. For recapitalization, there is no reporting process for determining the "actual" (i.e executed) recapitalization rate in a given year, and there are many barriers to doing so. For example, appropriations for military construction projects – which make up the bulk of the recapitalization investment – are good for five years and are typically executed over more than one year. Additionally, Congressional adds, rescissions, reprogrammings, and late project adjustments all alter the "actual" recapitalization rate. There is no system as yet to capture these changes at the DoD level. For sustainment, a system is in place to capture the "actual" sustainment expenditure at the DoD level, however FY03 is the very first year for the system and the initial results may or may not be reliable. The initial result the FY03 sustainment rate is 79% – not 93% as budgeted. However, it is very likely that that some of the "unexecuted" sustainment migrated to and was executed as recapitalization – but there is no system as yet in place to show the effect of such migrations on the recapitalization rate. Hence, the table continues to show budgeted rates, not actual rates.

Shortfalls in facilities recapitalization (and associated sustainment) were considered in development of the amended FY 2002 and FY 2003 budgets. Although performance as measured by the budgeted recapitalization and sustainment rates improved from FY 2001 levels, the targets (67-year recapitalization rate and full sustainment) were not achieved in either budget. As a result of not achieving full sustainment levels, the theoretical service life of the inventories (67 years) suffered another incremental reduction. As a result of not achieving a 67-year recapitalization rate, obsolescence in the facilities inventories increased incrementally. The cumulative and compounding effect of these shortfalls is measured by the number of C-3 and C-4 facilities reported in the Department's readiness reports (68% of facility classes are reported as having serious deficiencies that adversely impact mission performance).

Appendix A: Detailed Performance Metrics

Because of the way these metrics are constructed, the underperforming results of FY 2002 and FY 2003 do not directly affect the sustainment and recapitalization performance targets for FY 2004. The goal for sustainment remains full sustainment; a 7% shortfall in programmed sustainment in FY 2003 cannot be offset with 7% overage in FY 2004. The interim goal for recapitalization remains 67 years, even though past performance has already reduced the service life of the facilities inventory. The direct effect of undersustainment and underrecapitalization is captured in the *accelerated recapitalization rate* that is required to restore readiness to at least C-2 status by 2010.

Appendix A: Detailed Performance Metrics

Performance Metric: Eliminate inadequate family housing by 2007

Metric	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual
Number of inadequate family housing units	182,246	170,314	143,608	129,955
Percentage of total family housing units[a]	60.9%	58.5%	53.4%	51.1%
[a] Targets or Projected Performance are not established for the Percentage of total family housing units.				

Metric Description. The Secretary of Defense has established a goal to eliminate all inadequate family housing by the end of FY 2007. Each Military Service has developed a Family Housing Master Plan that outlines the approach it will follow to achieve this long-term goal. These plans identify the program requirements, by year, to eliminate inadequate family housing by FY 2007.

Inadequate housing, in general, is any unit that requires a major repair, component upgrade, component replacement, or total upgrade. Each Service has evaluated its housing and identified inadequate units. Each Service has then developed a plan to eliminate this inadequate housing through a combination of traditional military construction, operations and maintenance support, and privatization.

V&V Method. Information was gathered from the OSD files and from the Military Departments FY 2002 Family Housing Master Plans, which are submitted annually to the Deputy Under Secretary of Defense (Installations and Environment). (Due to the implementation of the new OSD Housing Requirements Guidance, Service Family Housing Master Plans were not provided in FY 2003, as a result, the housing baseline will be adjusted with the FY 2004 Master plans). These Master plans provide detailed information, by installation, on the Service's ability to achieve the 2007 family housing goal.

Performance Results for FY 2003. The Department reduced inadequate family housing by 14,000 units in FY 2003 through revitalization, demolition, and privatization. The total number of inadequate family housing upgraded through privatization totals about 38,000 units.

Appendix A: Detailed Performance Metrics

Performance Metric: Reduce Customer wait time (days)

Metric	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target/Actual
Customer Wait time (days)	N/A[a]	18	16	16/19[b]

[a] Reporting of CWT did not begin until FY 2001.
[b] Through 3rd Quarter of FY 2003

Metric Description. Customer Wait Time (CWT) measures the elapsed time from order to receipt when a customer orders an item of material. The customer's order may be filled from assets on hand at the customer's military installation or naval vessel, or through the DoD wholesale logistics system. For purposes of this Enterprise Level Metric, CWT includes orders for spare and repair parts ordered by organizational maintenance activities. CWT captured for orders considered below enterprise level are maintained by each of the Military Services and the Defense Logistics Agency.

V&V Method. Data on transaction volume and order-receipt times are collected monthly from various Military Service systems. The Military Services roll the inputs from their respective systems into a single Service report in spreadsheet format that they submit to the Defense Automatic Addressing System (DAAS). DAAS then calculates a weighted average (based on the relative volume of transactions) for the entire DoD, which is the figure reported above. All Military Service inputs are based on an agreed-upon set of business rules. This methodology helps to ensure consistent treatment of data and valid comparisons across DoD Components.

Performance Results for FY 2003. Preliminary indications are that DoD will not meet its FY 2003 CWT target of 16 days because of the increase in demand for critical items and delays in closing out transactions caused mainly by the execution of Operation Iraqi Freedom.

Appendix B: Internet Links

Topic	Internet Link
Department of Defense (DoD)	www.defenselink.mil
DoD Performance and Accountability Report	www.dod.mil/comptroller/par
DoD Quadrennial Defense Review (2001)	www.defenselink.mil/pubs/qdr2001.pdf
DoD Business Management Modernization Program	www.dod.mil/comptroller/bmmp/pages/index.html
DoD Annual Defense Report (2003)	www.defenselink.mil/execsec/adr2003/
DoD Budget (2003)	www.dod.mil/comptroller/defbudget/fy2003/index.html
Office of the Secretary of Defense	www.defenselink.mil/osd/
Joint Chiefs of Staff	www.dtic.mil/jcs/
Department of the Army	www.army.mil
Department of the Navy	www.navy.mil
U.S. Marine Corps	www.usmc.mil
Department of the Air Force	www.af.mil
Combatant Commands	www.defenselink.mil/sites/u.html#unified
DoD Agencies	www.defenselink.mil/sites/a.html#agencies
DoD Field Activities	www.defenselink.mil/sites/f.html#fldacts