Department of Defense

Missile Defense Agency

FY 2004

Annual Financial Statements

Missile Defense Agency
FY 2004 Annual Financial Statements
UNAUDITED

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MESSAGE FROM THE EXECUTIVE DIRECTOR

I am pleased to present the Missile Defense Agency's (MDA) Annual Financial Statements for Fiscal Year (FY) 2004 - a year marked by significant events. We said farewell to our Agency Director, Lieutenant General Ronald T. Kadish. We are deeply indebted to him for his vision and personal dedication to this important work over the past five years. In July, we welcomed the newly appointed Director, Lieutenant General Henry A. Obering, III.

Our dedicated military, civilian, and contractor team has enabled us to pursue an aggressive Research, Development, Test, and Evaluation program to meet the President's direction to field a missile defense capability for our national security. With the constraints of the Anti-Ballistic Missile Treaty removed, we have expanded our test programs to include sea-based radars, ground-based high altitude radars, and airborne sensors to protect against long-range strikes. In our comprehensive testing program, flight tests, intercept tests, and ground tests have been successfully conducted. We have achieved significant milestones in testing long-range, ground-based intercepts; and short-range, ground-based intercepts; and ship-based exoatmospheric intercepts. Additionally, a high tempo of war games, exercises, and seminars remains on-going.

To achieve the President's direction, MDA has been entrusted with funds provided by the Congress. MDA takes the stewardship of those resources seriously. I am proud to note that, working with the Under Secretary of Defense (Comptroller), we have developed and implemented a Financial Improvement Plan that will help us achieve full compliance with the Chief Financial Officers Act and the Federal Managers' Financial Integrity Act. Under this plan, we have launched an effort to verify the accuracy and completeness of these financial statements. Even more importantly, however, this effort will help to ensure that the Director and the MDA program managers will be provided accurate, reliable, and timely financial information. Better financial information will enable them to more effectively use the taxpayers' resources that are entrusted to them.

R Snyder
Robert Snyder
Executive Director

Missile Defense Agency
FY 2004 Annual Financial Statements (Unaudited)
Management's Discussion and Analysis

I. Description of the Missile Defense Agency

a. Overview

The mission of the Missile Defense Agency (MDA) is to develop an integrated layered Ballistic Missile Defense System (BMDS) to defend the United States, its deployed forces, friends and allies from ballistic missiles of all ranges and in all phases of flight.

Section 2 of the National Missile Defense Act of 1999 (Public Law 106-38) states: "It is the policy of the United States to deploy as soon as it is technologically possible an effective National Missile Defense system capable of defending the territory of the United States against limited ballistic missile attack (whether accidental, unauthorized, or deliberate) with funding subject to the annual authorization of appropriations and the annual appropriation of funds for National Missile Defense."

MDA is carrying out its mission by pursuing an aggressive Research, Development, Test and Evaluation (RDT&E) program to implement that policy. On 16 December 2002, the President issued a National Security Presidential Directive which directed the Department of Defense (DoD) to accelerate the fielding of a modest missile defense capability in support of Initial Defensive Operations. MDA is aggressively working with the Combatant Commanders and Military Services to implement the President's Directive. While there is only one integrated missile defense system, the missile defense architecture is evolutionary in order to leverage advances in technology. MDA employs a spiral development approach to incorporate upgrades to the missile defense system, which enables MDA to:

- Establish the Initial Defensive Operation to begin incremental protection of our Homeland from ballistic missile attack
- Add networked, forward-deployed ground-based, sea-based, and space-based sensors to make interceptors more effective in the future
- Expand our capability by adding interceptors over time
- Add complex layers of increasingly capable sensors and weapons, as technologies emerge

The missile defense system is constructed around a "capability-based" block approach. Each missile defense system block spans a two-year timeframe. In each block, MDA continuously builds capability into the missile defense system by augmenting and enhancing existing capabilities and introducing new sensor and weapon projects. As new projects mature, they will be integrated into the missile defense system to increase the capability to respond to the evolving threat. Block management includes decision points at which activities will be evaluated on the basis of effectiveness within the overall system, technical risk, deployment schedule and cost. Developmental activities will be accelerated, modified or terminated from these decision points depending on progress and promise.

Today's MDA activities are focused on six objectives: 1) complete development, fielding, and transition to alert of Block 2004; 2) provide warfighter support and sustainment for BMDS; 3) develop a totally integrated BMDS for Block 2006 and beyond; 4) improve the BMDS through incremental improvements and Block upgrades over time; 5) conduct an increasingly robust integrated test program concurrent with operations; and 6) build an international foundation for missile defense.

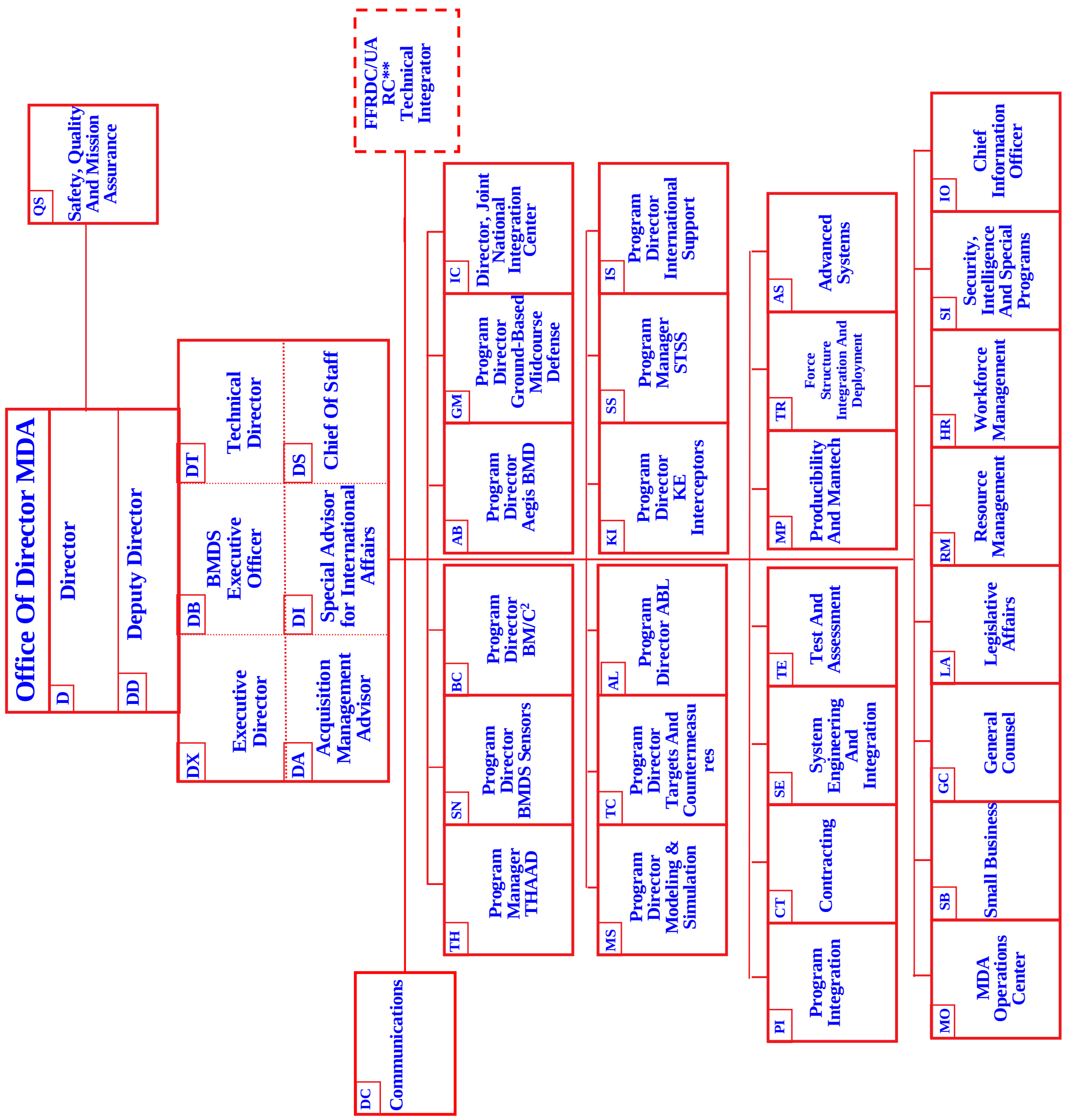
MDA identifies BMDS capabilities, architectures and element contributions to counter the threat and organizes them by Engagement Sequence Groups (ESGs). These ESGs describe a combination of weapons, sensors and Command and Control Battle Management and Communication (C2BMC) capabilities that must work together to detect, track and intercept an enemy missile – the complete kill chain from the time the threat missile is first detected through the intercept of the target. Through ESGs, the MDA Systems Engineer identifies the necessary interfaces required to deliver a usable configuration of the BMDS. ESGs are also useful in helping the operator plan and train for operation of that capability, and they provide a means to track and test future improvements to the system.

b. Organizational Structure

The MDA Director provides overall program guidance and direction in conjunction with the executive staff. The Director uses a systematic approach to establish program guidance and develop goals to ensure execution of that guidance. Organizational elements and program managers then use the Director's guidance to establish a supporting set of goals. These goals include the development of technologies and systems that are effective, reliable and affordable.

The business functions and organizational structure within MDA are aligned to better implement program activities by following MDA directions and guidance. This is necessary to further develop, test and evaluate selected elements of missile defense systems and achieve an effective layered missile defense program that is cost effective, technically sound and reliable.

The organization chart on the following page provides a view of the division of system, program, and functional responsibilities within MDA.



**Federally Funded Research & Development Center / University Affiliated Research Center

In addition to the Program Directors and Managers depicted on the Organization Chart, activities within the DoD Components, such as those listed below, assist MDA in executing the BMDS:

Army

- United States Army Program Executive Office for Air, Space & Missile Defense
- United States Army Space and Missile Defense Command/ United States Army Forces Strategic Command

Navy

- Naval Sea Systems Command
- Office of Naval Research

Air Force

- Air Force Research Labs at Kirtland Air Force Base (AFB), NM; Edwards AFB, CA; Wright Patterson AFB, OH and Hanscom AFB, MA
- Air Force Space Command at Los Angeles AFB, CA; Kirtland AFB, NM and Peterson AFB, CO
- Air Force Materiel Command at Wright Patterson AFB, OH
- Arnold Engineering Development Center at Arnold AFB, TN
- Airborne Laser Program Office at Kirtland AFB, NM
- Vandenberg AFB, CA

Combatant Commanders

Our BMDS program is also supported by several councils and boards. The DoD Senior Executive Council (SEC) chaired by the Deputy Secretary of Defense, is the primary authority for making recommendations to the Secretary of Defense on significant research and development changes and on fielding BMDS capability. The SEC also includes the Under Secretary of Defense for Acquisition, Technology and Logistics, and the Service Secretaries. The Deputy Secretary may invite others as necessary. The Director of the Missile Defense Agency makes recommendations directly to the SEC. Additionally, we have briefed and continue to consult the Joint Requirements Oversight Council.

The SEC relies on the Missile Defense Support Group (MDSG), which meets frequently over the course of the year, to aid in its decision process. The MDSG includes principals from Office of the Under Secretary of Defense for Acquisition, Technology & Logistics, Office of the Under Secretary of Defense for Policy, Office of the Under Secretary of Defense/Comptroller, Joint Staff, Assistant Secretary of Defense for Command Control Communications & Intelligence, General Counsel, Office of the Director for Operational Testing & Evaluation, Program Analysis & Evaluation, Cost Analysis Improvement Group, and the Services. MDSG members have insight into every aspect of the Ballistic Missile Defense (BMD) Program and are the primary means for conducting and coordinating all department-level analyses or reports on missile defense. Staff-level analysts comprising the MDSG Working Group receive periodic management reports and frequently attend our internal program progress reviews.

We work with the Services to ensure that Service perspectives and concerns are reflected in the development of BMDS capabilities. Senior deliberative bodies known as the

Service-MDA Board of Directors coordinate and resolve Ballistic Missile Defense (BMD) issues in scheduled forums. We discuss program policy and direction, resources, requirements, development progress, transition issues, and operations and support concerns. In addition, the Services have liaison teams that reside in MDA, but report to their Service. A General Officer Steering Committee also provides feedback to MDA on Service and Combatant Commanders' (COCOMs) concerns.

c. Program Description

The foundation of our program of work is our aggressive research and development effort, which is guided by capability-based planning and spiral development. Capabilities-based planning allows us to develop capabilities and objectives based on technology feasibility and disciplined engineering analyses and the capability of the threat. Spiral development enables the execution of an iterative process for developing the BMDS by refining program objectives as technology becomes available through experimentation and risk management with continuous feedback based on regular interaction among military operators, the test community and MDA. This leads to an evolutionary approach to missile defense deployment in which there is no final or fixed missile defense architecture but we continue to improve the effectiveness of defensive capabilities over time. To accomplish our goal of an integrated, layered BMDS capable of engaging enemy ballistic missiles of all ranges during the boost, midcourse, and terminal phases of flight, our development program is focused on:

- Fielding an initial capability in accordance with the President's direction;
- Adding interceptors and networked, forward-deployed ground-, sea-, and space-based sensors in 2006-07 to make the interceptors more effective; and
- Adding layers of increasingly capable weapons and sensors, made possible by insertion of emerging technologies.

We have transitioned the program from a collection of individually defined elements to a program focused on a single, integrated system whose performance is measured as a whole. In this context, elements and components are measured by their contribution to overall system performance. Our BMDS test philosophy recognizes the need for an integrated, phased test program that covers all facets of testing using flight tests, ground tests, war games and models and simulations. Employing this philosophy, we continue to have success in our test program. We learn a great deal with each test, even when an intercept is not achieved. Additionally, free from the constraints of the Anti-Ballistic Missile Treaty, we have expanded testing programs to include previously prohibited activities such as the testing of sea-based radars (Aegis SPY-1), Terminal High Altitude Area Defense (THAAD) radar, and airborne sensors (Airborne Laser Infrared Search and Track sensor) against long-range targets. Our Missile Defense Integration Exercises (MDIEs) are also being enhanced to accommodate the testing of integrated missile defense systems. Ballistic missile defense achieved real-world success during the conflict in Iraq. The PATRIOT system, either with PATRIOT Advanced Capability-3 (PAC-3) interceptor or the Guidance Enhanced Missile interceptor, successfully intercepted nine of nine ballistic missiles during the conflict.

The new Unified Command Plan has assigned the role of global integrated planning for missile defense to the United States Strategic Command (USSTRATCOM). Because the

BMDS will operate across several areas of responsibility, the DoD recognized the necessity of integrating missile defense operational planning. Operational planning, however, is a cooperative endeavor and USSTRATCOM is working closely with the COCOMs, the Joint Staff, and MDA to develop a Concept of Operations for the BMDS. Consequently, our support to and interaction with USSTRATCOM is growing. We have also expanded the role of the COCOMs in our test planning, war games and integration exercises. For instance, USSTRATCOM and United States Northern Command are fully involved in the planning of our MDIEs and our Integrated Missile Defense war games, which simulate system-wide engagements.

To provide protection to our allies and friends, as well as to the United States, international participation has become a major thrust of our program. Consistent with Presidential guidance, we strive to structure our programs to promote cooperation, and we seek to take advantage of allies' capabilities to enhance the BMDS. For example, the United States signed a Memorandum of Understanding on Ballistic Missile Defense with the United Kingdom and an Annex on upgrading the Fylingdales Early Warning Radar. Australia announced its plans to participate in our efforts. Japan decided to purchase Standard Missile-3 (SM-3) and PAC-3. And, in addition, North Atlantic Treaty Organization (NATO) initiated a feasibility study for protection of territories against long-range ballistic missile attacks. Discussions on missile defense cooperation with NATO as well as countries like Japan, the United Kingdom, Australia and Israel will continue, while we seek to expand cooperative opportunities to others, including new friends like

II. Performance Goals, Objectives, and Results

The Bush Administration has a vision for government reform guided by three principles in the President's Management Agenda. Basically, the President believes that government should be: citizen centered, not bureaucracy centered; results oriented; and market based, actively promoting innovation through competition. Establishing the link between budget and performance is one of the pillars of the administration's management agenda. The administration has taken unprecedented steps to reform the budget process. The Office of Management and Budget, in collaboration with other federal agencies, has developed the Program Assessment Rating Tool (PART), comprised of assessment criteria on program performance and management. The PART establishes a high standard of performance and will be used to rate programs.

Our goals are embodied in various Statements of Goals (SOGs). There are Developmental and Operational SOGs which categorize two-year Block capabilities in terms of inputs and outcomes. These goals are consistent with the President's Management Agenda and link the budget (inputs) to performance measures (outputs and outcomes). MDA uses an iterative and evolutionary System Engineering and Integration (SE&I) process to define and achieve our goals for successive Blocks of the BMDS. MDA's SE&I mission is to define, manage, and integrate all engineering development for the BMD System. This responsibility is executed through a comprehensive, collaborative system engineering process which defines required system-wide behavior, validates element system designs, and assesses and verifies system capability. The process involves five-phases: 1) Test Bed Planning 2) BMDS design 3) BMDS development 4) integration and verification and 5) operational integration. It enables functional allocation of required capabilities across elements in a time-phased approach focused on delivery and improvement of the BMDS system capability. The process is temporally organized within two-year development Test Beds which enable the SE&I function to define a baseline system architecture and set time-phased technical goals and objectives to guide the design, development and delivery of evolutionary enhanced BMDS capabilities. MDA SE provides leadership of the Responsible Engineering Organization (REO) collaborating across the MDA to provide the framework, processes, and cohesiveness necessary to further develop BMDS capability.

SE&I provides an integrated and layered BMD System architecture, develops block technical definitions, develops element requirements, schedules, verification strategies and other products required to execute the BMD System program. Integration of the BMD System elements into an integrated and layered BMD System architecture is based on designs from both inside and outside of SE&I. SE&I products are ultimately used to guide and enhance operational BMD System capabilities in the Elements including; Ground based Midcourse Defense (GMD), Aegis Ballistic Missile Defense (Aegis BMD), Terminal High Altitude Area Defense (THAAD), Kinetic Intercept (KI), Airborne Laser (ABL), Space Tracking and Surveillance System (STSS), Sensors and Command and Control, Battle Management and Communications (C2BMC). The SE&I is responsible for developing programs and concepts that will be reviewed by MDA executive management plus independent ``peer review`` teams through a structured review process. Review assessments evaluate whether to accelerate, modify or truncate individual elements based on technology progress, resulting block capabilities, and national and military needs. Assessment factors include changes in block capability, schedule, risk, and life cycle cost that will in turn be incorporated into future concepts, designs, and implementations.

The engineering construct for organizing and discussing BMDS capability is the Engagement Sequence Group (ESG). In a complex system such as the BMDS, the functions necessary to engage a target are performed by many components. As an engineering method to organize, synchronize, and maximize the system performance of the functions performed by each component and all the components combined, we formulated the concept of the Engagement Sequence Groups. An ESG is a means to categorize, or group, similar engagement sequences based upon capability or functions. An engagement sequence is a unique combination of detect-control-engage functions performed by BMDS components (e.g., sensors, weapons and C2BMC equipment) used to engage a threat ballistic missile; it would define a specific detection sensor, specific fire control radar and specific weapon. ESGs define the sequence of events, functions, and system components used to enable a weapon to engage a target, and provide the structure for measuring the level of performance and integration maturity of the BMDS. ESGs also relate multiple ways of engaging a target.

The ESG is prominent in our Statements of Goals. Table 1 below provides a definition of the ESG. Actual ESGs are dependent on the elements and components. For example, a Block 2004 ESG is "GBI Engage on Cobra Dane Radar," in which the Ground-Based Interceptor (GBI) will receive its final target update from the Cobra Dane Radar. When the BMDS is limited in scope – i.e., limited number of elements and components – there are a limited number of ESGs. For an integrated BMDS comprised of multiple weapons and sensors, there can be various combinations of elements used to enable the engagement of hostile ballistic missiles. As additional sensors and weapons are integrated into the BMDS, the number of ESGs will increase, thereby increasing system capability.

Better information about the threat (from additional sensors/radars) and/or more chances to destroy the threat (from additional weapons types) will also result in enhanced system performance. Using ESGs as a tool enhances functional and engineering analysis, creates manageable combinations for Block configurations, simplifies allocation of BMDS capabilities, provides a structure to assess BMDS performance, and assists the warfighter in operating the BMDS. The following is an example of an ESG format and category descriptions.

Engagement Sequence Group Title	**Short title including BMDS Integration (e.g., Uncued, Cued, Launch on Aegis, Engage on Cobra Dane, Engage on UEWR, etc.)**
Engaging Weapon	**The weapon component used in the engagement (e.g., GBI, SM-3, ABL, KEI, THAAD, PATRIOT, etc.)**
Surveillance/Initial Track	**The sensor that initially detects the threat and provides track data used to initiate the engagement sequence (e.g., Defense Support Program, Aegis, Cobra Dane, etc.)**
Launch Sensor	**The dominant sensor used to supply data to launch the interceptor (e.g., Aegis, Cobra Dane, THAAD, etc.)**
Engagement Support Sensor	**The dominant off-board (not on interceptor) sensor used to supply data to consummate the engagement. (e.g., Aegis Cobra Dane, Sea-Based X-Band Radar, etc.)**
Target Selection Methodology	**Short-hand notation for the end-to-end process used to select and ultimately discriminate the threat object to be engaged. (e.g., EKV, EKV + UEWR, Aegis System, THAAD System, etc.)**

Table 1. Engagement Sequence Groups

The contribution of the research and development program, therefore, is measured both in terms of the addition of elements and components but also in terms of the addition of Engagement Sequence Groups to the system, which indicate the ultimate outcome of the development program. The Operational Statement of Goals, in turn, provides performance goals resulting from a combination of inventory with the available Engagement Sequence Groups. Together, Developmental SOGs and Operational SOGs constitute the entirety of the BMD program goals.

III. Financial Condition

a. Budgetary and Financial Aspects

These financial statements reflect aggregate totals for the three Congressionally-provided appropriations comprising MDA's funding: RDT&E, Procurement, and Military Construction (MILCON). RDT&E appropriations fund the development of new weapon system capabilities; improving capabilities of existing weapon systems through applied research on advanced concepts; and designing, building, and testing of prototypes. Procurement appropriations fund acquisition of currently fielded weapon systems and components. MILCON appropriations fund construction of military facilities.

MDA's primary mission is to develop, test, and prepare for fielding a missile defense system and, therefore, almost all of MDA's funding is from the RDT&E appropriation. In FY 2003, $6.7 billion was appropriated for RDT&E, $607.1 million for Procurement and $24.9 million for MILCON. In FY 2004, MDA's funding included $7.6 billion for RDT&E, $24.4 million for MILCON, but no Procurement appropriations. Section 222 of the FY 2004 National Defense Authorization Act allows MDA to use RDT&E funds to field initial ballistic missile defense capabilities (to include funding the procurement and construction thereof). The bulk of the MILCON funds received in FY 2004 are earmarked for construction at Redstone Arsenal in Huntsville, Alabama.

b. Executing Agents

MDA's appropriations are aligned in terms of program elements that define the major areas of research and weapon capabilities in support of MDA's mission. Funds are executed at the program element level. The MDA headquarters organization manages a portion of its funding in order to maintain fiduciary control over various world-wide operations from fund allocation through disbursement stages of resource management. Executing Agents receive the balance to assist in executing the MDA BMDS program. These Executing Agents are in the Military Services and other Defense Agencies associated with their particular program elements. MDA provides funding to the Executing Agents through a sub-allocation of budget authority. Executing Agents are accountable to the Director, MDA for execution of funding through their own unique accounting systems and processes.

About one-half of the installation accounting for MDA's funding is performed in accounting systems other than the MDA internal accounting system-Defense Joint Accounting System (DJAS). These systems include: Standard Operation and Maintenance Army Research and Development System; Standard Accounting and Reporting System; General Accounting and Finance System and Central Procurement Accounting System; Washington Headquarters Services Allotment Accounting System; Centralized Accounting and Finance Resource Management System; and Financial Accounting Management Information System.

The Defense Finance and Accounting Service (DFAS) compiles MDA's financial statements based on detailed data from MDA's DJAS accounting reports and summary level data received as trial balances from the various DoD accounting offices supporting the Executing Agents.

IV. Systems, Controls, and Legal Compliance

a. Internal Controls

FY 2000 marked the first year that MDA compiled stand-alone financial statements since it was established in FY 1984. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) waived the requirement for MDA to subject its FY 2000 and FY 2001 financial statements to audits. In FY 2002, Public Law 107-107, National Defense Authorization Act of FY 2002, directed DoD to minimize the resources used to prepare and audit financial statements if an unqualified audit opinion was not expected.

In lieu of financial statement audits, MDA hired an independent Certified Public Accounting firm to perform assessments of the FY 2000 and FY 2001 financial statements. These assessments identified weaknesses and deficiencies that have been incorporated into MDA's Financial Improvement Plan. MDA has developed the Financial Improvement Plan to reach full compliance with the Chief Financial Officers Act and the Federal Managers'

Financial Integrity Act. MDA is committed to obtaining an unqualified audit opinion and is working toward resolving the weaknesses and deficiencies identified in the plan to achieve its goal.

The Federal Managers' Financial Integrity Act of 1982 requires DoD to submit an annual Statement of Assurance through the Secretary of Defense on the adequacy of its management controls to the President and Congress. The Under Secretary of Defense (Comptroller) is responsible for coordinating this effort. MDA has taken the necessary measures to ensure that evaluation of management controls has been conducted in compliance with the Federal Managers' Financial Integrity Act of 1982.

This evaluation of internal controls extends to every activity MDA undertakes and is applicable to financial, administrative, and operational controls with the exception of the system of internal accounting and administrative controls within the purview of DFAS and United States Army Corps of Engineers (USACE). DFAS and USACE provide all accounting support to MDA. These organizations report separately to DoD on compliance with the Federal Managers' Financial Integrity Act of 1982 for their organization and functions.

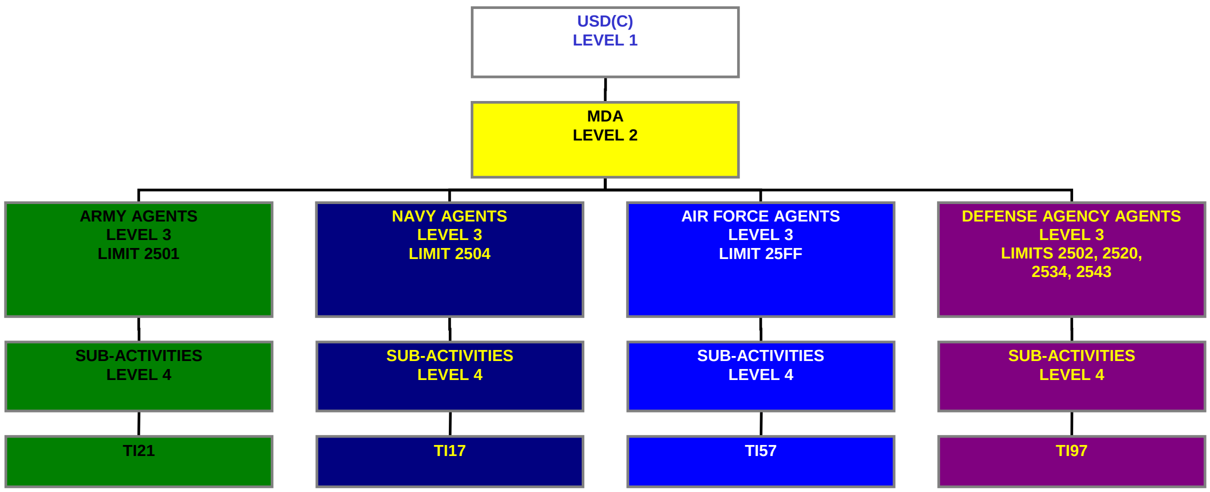
In FY 2004, MDA reported in its Annual Statement of Assurance a material weakness related to management controls over financial statement reporting. The reported management control weaknesses included inconsistent financial data and practices, manual work-arounds such as data calls and the DoD trading partner process for intra-governmental eliminations, and delayed deployment of CFO-compliant financial systems.

b. Automated Systems

The systems used to directly support the MDA Headquarters are the Program Budget and Accounting System (PBAS) for budgetary funds distribution, DJAS for proprietary and budgetary installation accounting, and the Defense Departmental Reporting System (DDRS) for preparation of financial statements.

MDA receives funding via PBAS from the OUSD(C) and sub-allocates amounts to Army, Navy, Air Force and other Defense Agencies' Executing Agents. They may, in turn, further sub-allocate their funds to lower level activities through PBAS or other means such as hard copy Funding Authorization Documents until funds are allocated to a performing activity. PBAS is an important tool in tracking the flow of funds within the MDA program management network as illustrated below.

MDA PBAS FUNDS FLOW



MDA uses DJAS to certify and obligate funds for internal agency headquarters administrative and programmatic financial management operations. MDA must rely on other accounting systems for transaction recording, processing, and reporting for external financial activity. MDA is working to acquire direct access to detailed financial accounting data from other accounting systems to fully execute its responsibility to manage all programs and provide input in the DoD financial statements. DJAS has been designated as a legacy system and requires future replacement. MDA is pursuing another integrated business management system to replace DJAS, as required by Congress (House Appropriations Committee Report accompanying the FY 2001 DoD Appropriations Bill). The on-going Business Management Modernization Program effort by the Under Secretary of Defense (Comptroller) will determine the outcome of this system replacement initiative.

The financial statement reporting system used by MDA is DDRS. DDRS is designed to standardize the DoD departmental financial statements reporting process and produce quarterly and annual financial statements. It provides MDA with DoD standard reports and financial statements that are based upon summary level trial balances submitted by DFAS Centers supporting the Military Services and Defense Components that receive MDA funds. DDRS is used to prepare MDA principal financial statements and notes.

c. Limitations to the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for MDA, pursuant to the requirements of Title 31, United States Code, Section 3515 (b).

While the statements have been prepared from the books and records of MDA, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, MDA is unable to implement all elements of the standards due to financial management systems limitations. There are other instances when MDA’s application of the accounting standards is different from the auditor’s application of the standards. In those situations, MDA has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the Unites States Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

d. MDA’s Future Challenges

MDA is fully engaged and focused on being responsive to the President’s directions and to achieve the requirements mandated in the National Security Presidential Directive -23, dated December 19, 2002, and DoD Directive 5134.9. The President made clear that there is no final, fixed missile defense architecture, but rather a set of capabilities to be fielded and improved over time. Our programs, goals and activities support an initial capability, provide for additional capability over time, and maintain an aggressive RDT&E program to accomplish our goal of defending the United States, and our allies, friends, and deployed forces from ballistic missiles of all ranges in all phases of flight. We look forward to continuing the significant progress and success we have achieved thus far.

ACRONYM LIST

ABL	Airborne Laser
AFB	Air Force Base
BCFC	Beam Control/Fire Control
BM/C^2	Battle Management Command and Control
BMD	Ballistic Missile Defense
BMDS	Ballistic Missile Defense System
C2	Command and Control
C2BMC	Command and Control Battle Management and Communication
COCOMs	Combatant Commanders
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
DJAS	Defense Joint Accounting System
DoD	Department of Defense
EKV	Exoatmospheric Kill Vehicle
ESG	Engagement Sequence Groups
FDR	Forward Deployable Radar
FY	Fiscal Year
GBI	Ground Based Interceptor
KE	Kinetic Energy
KEI	Kinetic Energy Interceptor
MDA	Missile Defense Agency
MDIE	Missile Defense Integration Exercises
MDNT	Missile Defense National Team
MDSG	Missile Defense Support Group
NATO	North Atlantic Treaty Organization
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PAC-3	PATRIOT Advanced Capability-3
PART	Program Assessment Rating Tool
PBAS	Program Budget Accounting System
R&D	Research & Development
RDT&E	Research, Development, Test and Evaluation
SE	System Engineering
SM-3	Standard Missile-3
SOG	Statement of Goals
THAAD	Terminal High Altitude Area Defense
UEWR	Upgraded Early Warning Radar
USACE	United States Army Corps of Engineers
USSTRATCOM	United States Strategic Command

FY 2004 ANNUAL FINANCIAL STATEMENTS

Department of Defense

Missile Defense Agency

Principal Statements

Missile Defense Agency
CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(Amounts in thousands)

	2004 Consolidated	2003 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	$ 3,533,176	$ 3,876,536
b. Non-Entity Seized Iraqi Cash	0	0
c. Non-Entity-Other	0	0
2. Investments (Note 4)	0	0
3. Accounts Receivable (Note 5)	477	11,718
4. Other Assets (Note 6)	5	121
5. Total Intragovernmental Assets	$ 3,533,658	$ 3,888,375
B. Cash and Other Monetary Assets (Note 7)	$ 0	$ 0
C. Accounts Receivable (Note 5)	403	336
D. Loans Receivable (Note 8)	0	0
E. Inventory and Related Property (Note 9)	0	0
F. General Property, Plant and Equipment (Note 10)	15,968	0
G. Investments (Note 4)	0	0
H. Other Assets (Note 6)	129,560	139,518
2. TOTAL ASSETS	$ 3,679,589	$ 4,028,229
3. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	$ 31,294	$ 58,938
2. Debt (Note 13)	0	0
3. Environmental Liabilities (Note 14)	0	0
4. Other Liabilities (Note 15 & Note 16)	630	7,281
5. Total Intragovernmental Liabilities	$ 31,924	$ 66,219
B. Accounts Payable (Note 12)	$ 327,317	$ 46,545
C. Military Retirement Benefits and Other Employment - Related Actuarial Liabilities (Note 17)	0	0
D. Environmental Liabilities (Note 14)	0	0
E. Loan Guarantee Liability (Note 8)	0	0
F. Other Liabilities (Note 15 & Note 16)	13,050	11,895
G. Debt Held by Public (Note 13)	0	0
4. TOTAL LIABILITIES	$ 372,291	$ 124,659
5. NET POSITION		
A. Unexpended Appropriations (Note 18)	$ 3,198,626	$ 3,782,836
B. Cumulative Results of Operations	108,672	120,734
6. TOTAL NET POSITION	$ 3,307,298	$ 3,903,570
7. TOTAL LIABILITIES AND NET POSITION	$ 3,679,589	$ 4,028,229

Missile Defense Agency
CONSOLIDATED STATEMENT OF NET COST
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Consolidated	2003 Consolidated
1. Program Costs		
A. Intragovernmental Gross Costs	$ 505,729	$ 578,190
B. (Less: Intragovernmental Earned Revenue)	(6,106)	(12,438)
C. Intragovernmental Net Costs	$ 499,623	$ 565,752
D. Gross Costs With the Public	7,670,802	7,166,370
E. (Less: Earned Revenue From the Public)	0	(1)
F. Net Costs With the Public	$ 7,670,802	$ 7,166,369
G. Total Net Cost	$ 8,170,425	$ 7,732,121
2. Cost Not Assigned to Programs	0	0
3. (Less: Earned Revenue Not Attributable to Programs)	0	0
4. Net Cost of Operations	$ 8,170,425	$ 7,732,121

Missile Defense Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
1. Beginning Balances	$ 120,734	$ 41,195
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments – Restated (+/-)	0	0
2.B. Beginning Balance, Restated	120,734	41,195
2.C. Prior Period Adjustments – Not Restated (+/-)	0	0
3. Beginning Balances, as adjusted	120,734	41,195
4. Budgetary Financing Sources:		
4.A. Appropriations received	0	0
4.B. Appropriations transferred-in/out (+/-)	0	0
4.C. Other adjustments (rescissions, etc) (+/-)	0	0
4.D. Appropriations used	8,175,364	7,870,007
4.E. Nonexchange revenue	0	(1)
4.F. Donations and for forfeitures of cash and cash equivalents	0	0
4.G. Transfers-in/out without reimbursement (+/-)	0	0
4.H. Other budgetary financing sources (+/-)	13,394	94,881
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0	0
5.B. Transfers-in/out without reimbursement (+/-)	(35,649)	(157,611)
5.C. Imputed financing from costs absorbed by others	5,254	4,386
5.D. Other (+/-)	0	0
6. Total Financing Sources	8,158,363	7,811,662
7. Net Cost of Operations (+/-)	8,170,425	7,732,121
8. Ending Balances	$ 108,672	$ 120,736

Missile Defense Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS		
1. Beginning Balances	$ 3,782,836	$ 4,336,599
2. Prior period adjustments (+/-)		
2.A. Prior Period Adjustments – Restated (+/-)	0	0
2.B. Beginning Balance, Restated	3,782,836	4,336,599
2.C. Prior Period Adjustments – Not Restated (+/-)	0	0
3. Beginning Balances, as adjusted	3,782,836	4,336,599
4. Budgetary Financing Sources:		
4.A. Appropriations received	7,689,601	7,338,157
4.B. Appropriations transferred-in/out (+/-)	28,537	99,788
4.C. Other adjustments (rescissions, etc) (+/-)	(126,983)	(121,702)
4.D. Appropriations used	(8,175,362)	(7,870,007)
4.E. Nonexchange revenue	0	0
4.F. Donations and forfeitures of cash and cash equivalents	0	0
4.G. Transfers-in/out without reimbursement (+/-)	0	0
4.H. Other budgetary financing sources (+/-)	0	0
5. Other Financing Sources:		
5.A. Donations and forfeitures of property	0	0
5.B. Transfers-in/out without reimbursement (+/-)	0	0
5.C. Imputed financing from costs absorbed by others	0	0
5.D. Other (+/-)	0	0
6. Total Financing Sources	(584,207)	(553,764)
7. Net Cost of Operations (+/-)	0	0
8. Ending Balances	$ 3,198,629	$ 3,782,835

Missile Defense Agency

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Combined	2003 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
1. Budget Authority:		
1a. Appropriations received	$ 7,689,601	$ 7,338,157
1b. Borrowing authority	0	0
1c. Contract authority	0	0
1d. Net transfers (+/-)	26,570	80,143
1e. Other	0	0
2. Unobligated balance:		
2a. Beginning of period	741,624	960,925
2b. Net transfers, actual (+/-)	1,967	19,645
2c. Anticipated transfers balances	0	0
3. Spending authority from offsetting collections:		
3a. Earned	0	0
1. Collected	18,735	13,637
2. Receivable from Federal sources	(11,282)	(175)
3b. Change in unfilled customer orders	0	0
1. Advance received	(7,564)	(128)
2. With out advance from Federal sources	380	1,720
3c. Anticipated for the rest of year, without advances	0	0
3d. Transfers from trust funds	0	0
3e. Subtotal	269	15,054
4. Recoveries of prior year obligations	301,985	550,099
5. Temporarily not available pursuant to Public Law	0	0
6. Permanently not available	(126,984)	(121,702)
7. Total Budgetary Resources	$ 8,635,032	$ 8,842,321

Missile Defense Agency
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Combined	2003 Combined
STATUS OF BUDGETARY RESOURCES		
8. Obligations incurred:		
8a. Direct	$ 8,238,345	$ 8,085,813
8b. Reimbursable	9,374	14,885
8c. Subtotal	8,247,719	8,100,698
9. Unobligated balance:		
9a. Apportioned	352,514	713,233
9b. Exempt from apportionment	0	0
9c. Other available	(1)	(2)
10. Unobligated Balances Not Available	34,800	28,392
11. Total, Status of Budgetary Resources	$ 8,635,032	$ 8,842,321
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
12. Obligated Balance, Net - beginning of period	$ 3,137,448	$ 3,272,741
13. Obligated Balance transferred, net (+/-)	0	0
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	(658)	(11,940)
14b. Unfilled customer order from Federal sources	(12,950)	(12,570)
14c. Undelivered orders	2,825,123	3,054,025
14d. Accounts payable	17,238	107,932
15. Outlays:		
15a. Disbursements	8,265,330	7,684,347
15b. Collections	(11,171)	(13,508)
15c. Subtotal	8,254,159	7,670,839
16. Less: Offsetting receipts	0	0
17. Net Outlays	$ 8,254,159	$ 7,670,839

Missile Defense Agency
COMBINED STATEMENT OF FINANCING
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Combined	2003 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
1. Obligations incurred	$ 8,247,718	$ 8,100,698
2. Less: Spending authority from offsetting collections and recoveries (-)	(302,253)	(565,152)
3. Obligations net of offsetting collections and recoveries	7,945,465	7,535,546
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	7,945,465	7,535,546
Other Resources		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	(35,649)	(157,611)
8. Imputed financing from costs absorbed by others	5,254	4,386
9. Other (+/-)	0	0
10. Net other resources used to finance activities	(30,395)	(153,225)
11. Total resources used to finance activities	7,915,070	7,382,321
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 (-)	229,659	170,188
12b. Unfilled Customer Orders	(7,184)	1,591
13. Resources that fund expenses recognized in prior periods	(5,991)	(5,371)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
15. Resources that finance the acquisition of assets	0	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	0	0
16b. Other (+/-)	35,649	0
17. Total resources used to finance items not part of the net cost of operations	252,133	166,408
18. Total resources used to finance the net cost of operations	$ 8,167,203	$ 7,548,729

Missile Defense Agency
COMBINED STATEMENT OF FINANCING
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	2004 Combined	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 Period:		
19. Increase in annual leave liability	$ 3,149	$ 0
20. Increase in environmental and disposal liability	0	0
21. Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
22. Increase in exchange revenue receivable from the public (+/-)	0	0
23. Other (+/-)	0	7,862
24. Total components of Net Cost of Operations that will require or generate resources in future period	3,149	7,862
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	0	0
26. Revaluation of assets or liabilities (+/-)	0	0
27. Other (+/-)		
27a. Trust Fund Exchange Revenue	0	
27b. Cost of Goods Sold	0	
27c. Operating Material & Supplies Used	0	
27d. Other	73	175,533
28. Total components of Net Cost of Operations that will not require or generate resources	73	175,533
29. Total components of net cost of operations that will not require or generate resources in the current period	3,222	183,395
30. Net Cost of Operations	$ 8,170,425	$ 7,732,124

FY 2004 ANNUAL FINANCIAL STATEMENTS

Department of Defense

Missile Defense Agency

Footnotes to the Principal Statements

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 Missile Defense Agency (MDA), as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of MDA in accordance with the "Department of Defense (DoD) Financial Management Regulation," Office of Management & 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 MDA is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. MDA's financial statements are in addition to the financial reports also prepared by MDA pursuant to OMB directives that are used to monitor and control MDA's use of budgetary resources.

MDA 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. Some of the reported values and information for MDA's asset and liability categories are derived from nonfinancial feeder systems, such as inventory systems and logistics systems, designed to support reporting requirements of maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, MDA has not implemented every aspect of Federal GAAP and OMB Bulletin No. 01-09. MDA continues to implement process and system improvements addressing the limitations of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnotes.

1.B. Mission of the Reporting Entity

In FY 2002, MDA moved from an independently managed element-centric (i.e., Major Defense Acquisition Program) focus to a single integrated system approach for ballistic missile defense.

Thorough review of the U.S. Missile Defense Program resulted in the decision to develop a new ballistic missile defense program that would integrate all ballistic missile defense systems into a single, coherent architecture designed to protect America and her allies and friends from all missile attacks regardless of the range of the missiles. This new missile defense program would produce the most effective defenses in the shortest time at a reasonable cost.

On January 2, 2002, Secretary Rumsfeld approved the management authorities required to execute the redirected U.S. Missile Defense Program and reorganized the Ballistic Missile Defense Organization (BMDO) from a field activity to a Defense Agency, the Missile Defense Agency (MDA).

With this new challenge, MDA manages, directs, and executes the Ballistic Missile Defense (BMD) Program to achieve the following top missile defense priorities:

To defend the U.S. deployed forces, allies and friends from present and future ballistic missile threats.

To employ a Ballistic Missile Defense System (BMDS) that layers defense to intercept missiles in all phases of flight against all ranges of threats.

To enable the Military Services to field elements of the BMDS as soon as practicable.

To develop and test technologies, use prototype and test assets to provide early capability, if necessary, and to improve the effectiveness of deployed capability by inserting new technologies as they become available or when the threats warrant an accelerated capability.

1.C. Appropriations and Funds

MDA is funded by general fund appropriations. General funds are used to finance activities for personnel, operation and maintenance, research and development, procurement, and construction.

1.D. Basis of Accounting

MDA generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2004, MDA's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of MDA's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP. Thus, these systems and processes were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. MDA 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. Until such time as all of MDA's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, MDA's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and transactions from nonfinancial feeder systems. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement of Net Cost.

Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, MDA identifies programs based upon the major appropriation groups provided by Congress. MDA 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 Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

1.E. Revenues and Other Financing Sources

Financing sources for general funds are provided primarily through congressional appropriations that are received on a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by the sale of goods or services through a reimbursable order process. MDA recognizes revenue when costs are incurred or services performed on behalf of other federal agencies and the public.

1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because MDA'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, when applicable. 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.

Operating expenses were adjusted 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 Intragovernmental Activities

MDA, 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 MDA as though the agency was a stand-alone entity.

MDA's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. MDA'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 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 Treasury of the United States (TUS) does not allocate such interest costs to the benefiting agencies.

MDA's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. MDA 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). MDA recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by OPM in the Statement of Net Cost; and recognize corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between components or activities within MDA must be eliminated. However, MDA, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of MDA and transactions between components or activities of DoD. 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 TUS, 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.

1.H. Transactions with Foreign Governments and International Organizations

Each year, 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

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

In addition, the DFAS sites and the USACE Finance Center submit reports to the TUS, by appropriation, on interagency transfers, collections received, and disbursements issued. The TUS then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the TUS system. Differences between MDA's recorded balance in the FBWT accounts and records supporting the TUS - FBWT accounts sometimes result and are subsequently reconciled. MDA's FBWT account is adjusted by the amount of the unreconcilable difference. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and TUS - FBWT accounts are disclosed in paragraph 1.Y. below, 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

MDA conducts a 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. These currency fluctuations are not separately identified.

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. DoD policy is to not perform services for nonfederal agencies or the public without a cash advance. 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. Material disclosures are provided at Note 5.

1.L. Loans Receivable. As Applicable

This section is not applicable to the MDA.

1.M. Inventories and Related Property

This section is not applicable to the MDA.

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

This section is not applicable to the MDA.

1.O. General Property, Plant and Equipment

The Department of Defense Financial Management Regulation, Volume 4, Chapter 6, "Property, Plant, and Equipment," establishes a policy that when the primary user of real property is not the owner of the property the user rather than the owner of the property reports the value of the property on its balance sheet. In compliance with that policy, MDA is reporting the value of property being constructed at Vandenberg AFB. Note 10 contains additional details.

1.P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenses when the related goods and services are received or consumed.

1.Q. Leases

The operating lease is with the General Services Administration (GSA) for the buildings MDA occupies. The lease agreements are between the Washington Headquarters Services (WHS) and GSA. Accordingly, future commitments under the operating lease should be disclosed on the financial statements of WHS. MDA reimburses WHS through a reimbursable agreement.

Additionally, MDA leases various copiers and fax machines under agreements accounted for as operating leases.

1.R. Other Assets

Based on the provision of the Federal Acquisition Regulation, MDA makes financing payments under fixed price contracts. MDA reports these financing payments as advances or prepayments in the other assets line item. MDA treats these payments as advances or prepayments because MDA becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, MDA is not obligated to reimburse the contractor for its costs and the contractor is liable to repay MDA for the full amount of the financing payments. The Department has completed a 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 Code of Federal Regulations Part 1315, "Prompt Payment." The Department has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

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 MDA. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss 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 that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. MDA's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as missile and vehicle accidents; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for assets. This type of liability has two components-nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon MDA's policies and consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department has agreed to the recognition of the nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

1.T. Accrued Leave

Civilian annual leave that has been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates. Sick leave and other types of non-vested leave are expensed as taken.

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, and amounts obligated but for which expenses have not been incurred or assets capitalized.

Cumulative results of operations represent the balance that results from subtracting expenses and losses from financing sources including appropriations, revenue, and gains since the inception of the activity.

1.V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be 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

Beginning in FY 2001, MDA presents the current and previous year's financial data for comparative purposes. This data is presented in the financial statements, as well as in the notes to the principal statements. The financial statements and accompanying notes to the financial statements report the financial position as of September 30, 2004, and results of operations for the fiscal year then ended. Fluctuations between the FY 2004 and the FY 2003 4th Quarter financial statements are explained within the notes to the financial statements.

1.X. Unexpended Obligations

MDA records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods or services have yet to be delivered.

1.Y. Problem Disbursements

Disclosures Related to Problem Disbursements, In-transit Disbursements	September 2003	September 2004	(Decrease)/Increase from 2003 to 2004
(Amounts in thousands)			
1. Total Problem Disbursements			
A. Absolute Unmatched Disbursements	58,959	4,063	(54,896)
B. Negative Unliquidated Obligations	5,139	1,493	(3,646)
2. Total In-transit Disbursements, Net	60,997	73,009	12,012

Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding obligation in the accounting system.

Negative Unliquidated Obligations (NULOs) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In-Transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity that are not yet posted in an accounting system.

Included in the total numbers for the problem disbursements disclosed above are $14 thousand in aged (over 120 days old) UMDs, a 97 percent decrease from the $489 thousand in aged UMDs reported in the 4th Quarter FY 2003; zero aged (over 120 days old) NULOs, a 100 percent decrease from the $417 thousand reported in the 4th Quarter FY 2003; and, $126 thousand in aged (over 120 days old) in-transit disbursements, a 95 percent decrease from the $2,704 thousand reported in the 4th Quarter FY 2003.

For Regulatory Discussion on “Problem Disbursements, In-transit Disbursements and Suspense/Budget Clearing Accounts,” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102305.

Note 2. Nonentity Assets

As of September 30	2004	2003
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Investments	0	0
C. Accounts Receivable	222	22
D. Other Assets	0	0
E. Total Intragovernmental Assets	$ 222	$ 22
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	0	97
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General PP&E	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Non-Federal Assets	$ 0	$ 97
3. Total Non-Entity Assets	$ 222	$ 119
4. Total Entity Assets	$ 3,679,367	$ 4,028,110
5. Total Assets	$ 3,679,589	$ 4,028,229

Definitions

Assets are categorized as Entity or Nonentity. Entity assets consist of resources that the Missile Defense Agency (MDA) has the authority to use, or where management is legally obligated to use funds to meet associated entity obligations. Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

Fluctuations

Nonentity Intragovernmental and Non-Federal Accounts Receivable consists of Cancelled Accounts Receivable reported in Limit 25FF. MDA is currently researching this jointly with the Defense Finance and Accounting Service providers to determine the validity of the Cancelled Accounts Receivable.

Note Reference

For Regulatory Discussion on “Nonentity and Entity Assets,” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1004

Note 3. Fund Balance with Treasury

As of September 30		2004		2003
(Amounts in thousands)				
1. Fund Balances				
A. Appropriated Funds	$	3,533,176	$	3,876,536
B. Revolving Funds		0		0
C. Trust Funds		0		0
D. Other Fund Types		0		0
E. Total Fund Balances	$	3,533,176	$	3,876,536
2. Fund Balances Per Treasury Versus Agency				
A. Fund Balance per Treasury	$	0	$	0
B. Fund Balance per MDA		3,533,176		3,876,536
3. Reconciling Amount	$	(3,533,176)	$	(3,876,536)

Other Information and Disclosure

Missile Defense Agency (MDA) is a Department of Defense (DoD) agency and, like other DoD agencies, is funded with allocations from Treasury Index (TI) 97 Defense appropriations. MDA further allots its allocation to Executing Agents (in accounting parlance, termed "limits") for specified purposes.

The Treasury of the United States (TUS) maintains a fund balance only at the TI 97 appropriation level whereas, as noted above, MDA's funding is controlled at an allocation level – a level below the TUS appropriation level. Therefore, for the purposes of this footnote, the entire MDA fund balance is presented as a reconciling amount on line 3.

MDA's Fund Balance With Treasury (FBWT) decreased by $343,360 thousand, or 9 percent, during FY 2004. The decrease was due primarily to a change in the mix of appropriations and program received and the corresponding outlay rates associated with those appropriation changes. In FY 2003, MDA received $660 million in the Procurement appropriation. In FY 2004, rather than a Procurement appropriation, MDA received an increase of almost $1 billion in its RDT&E appropriation. MDA's first year outlay rate for its FY 2003 Procurement funding was 29 percent, whereas the outlay rate for the first year of its FY 2004 RDT&E funding was 72 percent.

Note Reference

See Note Disclosure 1.I. - Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with TUS.

For Regulatory Discussion on "Fund Balance with Treasury," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1003.

Note 4.	Not Applicable

Note 5.	**Accounts Receivable**

As of September 30	2004			2003
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intragovernmental Receivables:	$ 477	N/A	$ 477	$ 11,718
2. Non-Federal Receivables (From the Public):	$ 403	$ 0	$ 403	$ 336
3. Total Accounts Receivable:	$ 880	$ 0	$ 880	$ 12,054

Other Information and Disclosure

Accounts Receivable consists of amounts owed to the Missile Defense Agency (MDA) by other federal agencies and by the public. Amounts due from federal agencies are considered fully collectible; however, amounts due from the public are usually presented as net of an uncollectible amount. MDA's accounting systems do not age accounts receivable due from the public, thus hindering the ability to properly estimate an allowance for uncollectible accounts. MDA will monitor the balance of accounts receivable due from the public on a quarterly basis to assess whether an allowance is warranted for future financial statements.

Elimination Adjustments

MDA's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, MDA was unable to reconcile intragovernmental accounts receivable 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 within the Department of Defense that after-the-fact reconciliations can not be accomplished with the existing or foreseeable resources

Fluctuations

Intragovernmental Receivables
The decrease of $11,241 thousand or 96 percent in Intragovernmental Receivables due primarily to the elimination of the reimbursable program from FY 2002 through FY 2004 for the Joint National Integration Center (JNIC), Limit 25FF. Since FY 2002 orders have been accepted on a direct cite basis rather than a reimbursable basis. The JNIC reimbursable program accounted for a majority of the MDA reimbursable program.

In addition to the decrease in the reimbursable program, in FY 2003, the Accounts Receivable amount in Limit 25FF was overstated by $1,719 thousand. An adjustment to correct the Accounts Receivable was posted to the accounting records in the 4th Quarter FY 2004.

Also, collections increased $4,630 thousand from FY 2003 to FY 2004.

Non-Federal Receivables
The increase was due to the change in the trading partner process. Beginning with the 4th Quarter FY 2004 statements, the Cash Management Report (CMR) adjustments are excluded from the trading partner process. As a result of the change in the process, the MDA CMR accounts receivable adjustments totaling $171 thousand were reclassified to Public Receivables prior to the trading partner process during this period.

Note Reference

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

For Regulatory Discussion on “Accounts Receivable,” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007.

Note 6. Other Assets

As of September 30	2004		2003	
(Amounts in thousands)				
1. Intragovernmental Other Assets:				
A. Advances and Prepayments	$	5	$	121
B. Other Assets		0		0
C. Total Intragovernmental Other Assets	$	5	$	121
2. Non-Federal Other Assets:				
A. Outstanding Contract Financing Payments	$	0	$	0
B. Other Assets (With the Public)		129,560		139,518
C. Total Non-Federal Other Assets	$	129,560	$	139,518
3. Total Other Assets:	$	129,565	$	139,639

Other Information and Disclosure

Intragovernmental Advances and Prepayments

The buyer-side advances to others balances were adjusted to agree with seller-side advances from others on the books of other Department of Defense (DoD) reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with the seller-side deferred credits on the books of other DoD reporting entities.

Fluctuations

Line 1.A. Other Assets – Advances and Prepayments decreased by $116 thousand or 96 percent from the FY 2003 statements. Based on the current quarter's trading partner data call, this decrease is associated with a reduction in reported advances by other governmental activities. Generally, MDA trading partners do not request advances.

Line 2 B- Other Assets (With the Public) consist of progress payments.

Note Reference

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

For Regulatory Discussion on "Other Assets," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

Note 7. Not Applicable

Note 8. Not Applicable

Note 9. Not Applicable

Note 10. General PP&E, Net

As of September 30	2004			2003
	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)				
1. Major Asset Classes:				
A. Land	$ 0	N/A	$ 0	$ 0
B. Buildings, Structures, and Facilities	0	$ 0	0	0
C. Leasehold Improvements	0	0	0	0
D. Software	0	0	0	0
E. General Equipment	0	0	0	0
F. Military Equipment	0	0	0	0
G. Assets Under Capital Lease	0	0	0	0
H. Construction-in-Progress	15,968	N/A	15,968	0
I. Other	0	0	0	0
J. Total General PP&E	$ 15,968	$ 0	$ 15,968	$ 0

Fluctuations

Line 1.H. – Construction-in-Progress increased by $15,968 thousand or 100 percent from FY 2003 to FY 2004. The increase is the result of improvements in the financial statement compilation process. In the 4th Quarter FY 2004, for the first time, Missile Defense Agency (MDA) had enhanced visibility of Construction-in-Progress payments as the result of additional detail provided by the Army Corps of Engineers (USACE). The Construction-in-Progress payments relate to a facility that is being constructed at Vandenberg AFB. MDA will be the preponderant user of the facility and, therefore, in accordance with DoD Financial Management Regulation, Volume 6B, Chapter 4, Paragraph 060105, MDA has reported and disclosed the Construction-in-Progress payments. MDA has included steps to review and validate the reporting and disclosure of all categories of General Property, Plant, and Equipment in MDA's Financial Improvement Plan to support the FY 2005 line item assertion process.

Note Reference

See Note Disclosure 1. N. **-** Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General Property, Plant and Equipment (PP&E).

For Regulatory Discussion on "General PP&E, Net," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101112.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2004	2003
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	29	0
B. Debt	0	0
C. Environmental Liabilities	0	0
D. Other	222	6,972
E. **Total Intragovernmental Liabilities**	251	6,972
2. Non-Federal Liabilities		
A. Accounts Payable	3,806	0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	0
C. Environmental Liabilities	0	0
D. Loan Guarantee Liability	0	0
E. Debt Held by Public	0	0
F. Other Liabilities	9,936	9,642
G. **Total Non-Federal Liabilities**	13,742	9,642
3. Total Liabilities Not Covered by Budgetary Resources	13,993	16,614
4. Total Liabilities Covered by Budgetary Resources	358,296	108,045
5. Total Liabilities	372,289	124,659

Definitions

Liabilities Not Covered

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

Liabilities Covered by Budgetary Resources are those resources 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 OMB without further action by the Congress or without a contingency first having to be met.

Fluctuations

Line 1A – Due to reporting changes implemented during FY 2004, the Defense Departmental Reporting System (DDRS) remapped the standard general ledger (SGL) 2960 to Line 1A. The FY 2003 amount is reported on Line 1D. The decrease in FY 2004 (Line 1D) from FY 2003 (Line 1A) of $6,972 thousand is a decrease in Cancelled Accounts Payable. The FY 2003 amount consisted of a year-end adjustment that was subsequently posted to appropriate accounting records in FY 2004.

Line 1D –Due to reporting changes implemented during FY 2004, DDRS remapped the standard general ledger (SGL) 2960 to Line 1A. The FY 2003 amount is reported on Line 1D. The increase of $222 thousand from FY 2003 to FY 2004 is due to a Federal Non-entity Custodial Liability resulting from Cancelled Accounts Receivable. Nonentity Intragovernmental and Non-Federal Accounts Receivable consists of Cancelled Accounts Receivable reported in Limit 25FF. MDA is currently researching this jointly with the Defense Finance and Accounting Service providers to determine the validity of the Cancelled Accounts Receivable.

Line 2A – The $3,806 thousand in Non-Federal Accounts Payable is comprised of $2,211 thousand of Accrued Funded Payroll and Leave as well as $428 thousand of Withholding Payables related to year-end accrued payroll.

Line 2F – The increase of $294 thousand relates to Annual Leave and is due to an increase in civilian employees and the associated annual leave beginning balances. For FY 2004, MDA reported 697 civilian employees, an increase of 153 from the 544 employees reported in FY 2003. The average annual leave beginning balance for new MDA employees is 106 hours. Other factors that affect the difference would include normal fluctuations in pay rate, increased rate of leave for current employees, and other similar items.

Note Reference

For Additional Line Item discussion, see:
Note 12, Accounts Payable
Note 15, Other Liabilities

For Regulatory Discussion on "Liabilities Not Covered and Covered by Budgetary Resources," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1013.

Note 12. Accounts Payable

As of September 30	2004			2003
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
1. Intragovernmental Payables:	$ 31,294	N/A	$ 31,294	$ 58,938
2. Non-Federal Payables (to the Public):	$ 327,3167	$ 0	$ 327,317	$ 46,545
3. Total	$ 358,611	$ 0	$ 358,611	$ 105,483

Other Information and Disclosure

Intragovernmental 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 intragovernmental payables. Non-federal payables (to the Public) are payments due to non-federal entities.

Intragovernmental Eliminations

For the majority of intra-agency sales, MDA's accounting systems do not capture Department of Defense (DoD) trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, MDA was unable to reconcile DoD intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. However, MDA was able to verify amounts for Level 1 Trading Partners and reported the amounts in the data call submission.

DoD summary level seller accounts receivable were compared to MDA's accounts payable. An adjustment was posted to MDA's accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to MDA. Positive differences were treated as unrecognized accounts payable and MDA's accounts payable were adjusted accordingly.

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.

MDA reported $263 thousand of interest payments for FY 2004 in accordance with the Prompt Payment Act.

Fluctuations

Intragovernmental Payables decreased by $27,644 thousand or 47 percent due to a change in the trading partner adjustment process implemented in the 4th Quarter FY 2004. In FY 2003, Cash Management Report (CMR) adjustments were included in the trading partner process. In FY 2004, the CMR adjustments were reclassified to public on the sellers' financial statements before the trading partner adjustments were made, therefore, excluding the CMR adjustments from the trading partner process. CMR unsupported adjustments in the amount of $24,732 thousand increased the FY 2003 Intra-governmental Payables due to the prior trading partner process.

Non-Federal Payables increased by $280,772 thousand from FY 2003 to FY 2004. The increase was due to the following factors:

- An accrual of $37,743 thousand was recorded in FY 2004 to recognize MOCAS receipts and acceptances that were not prevalidated as of the end of the accounting period. Previously, accounts payable were posted in the accounting system after the prevalidation. This process change implemented in FY 2004 presents a more accurate reporting of the true accounts payable.
- An adjustment in the amount of $38,086 thousand was posted for Limit 2501 to increase the Non-Federal Accounts Payable in FY 2004. This adjustment is being researched jointly by the Missile Defense Agency (MDA) and the Defense Finance and Accounting Service (DFAS).
- The FY 2003 Public Payables were decreased and reclassified by $24,732 thousand to Intra-governmental Payables as a result of changing from the prior trading partner process.
- MDA Limit 2520 for FY 2004 increased $59,348 thousand. The changes are attributed to process improvements at DFAS, which resulted in a more timely processing of prevalidated transactions.
- The remaining $170,327 thousand increase is due to an erroneous adjustment made to reverse the effects of field accounting office transactions made in the 1st Quarter,

FY 2004, but previously included in the 4th Quarter, FY 2003, Audited Financial Statements. In the 4th Quarter, FY 2003, a departmental adjustment was made to reduce accounts payable by the amount of supported undistributed disbursements not captured by MDA's accounting office. The undistributed disbursements represented MDA funds paid by disbursing stations and reported to the Department of Treasury in FY 2003. However, MDA's field submitted 4th Quarter, FY 2003 trial balances did not include these disbursements. Therefore, in order to avoid an overstatement of accounts payable in the 4th Quarter, FY 2003, AFS, an adjustment was made to reduce accounts payable by the amount of the undistributed disbursements. In the 1st Quarter, FY 2004, MDA's accounting office recorded the disbursements. Since the effects of these disbursements were recorded in the FY2003 AFS, an adjustment was necessary to reverse their effects on the FY 2004 trial balances. However, the FY 2004 adjustment erroneously reversed the FY 2003 reduction to accounts payable. Consequently, accounts payable were overstated by $170,327 thousand.

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.

For Regulatory Discussion on "Accounts Payable," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1014.

Note 13. Not Applicable

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30	2004			2003
	Current Liability	Noncurrent Liability	Total	Total
1. Environmental Liabilities – Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	$ 0	$ 0	$ 0	$ 0
2. Active Installations--ER for Closed Ranges	0	0	0	0
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	0	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0	0
3. Active Installations—Environ. Response at Active Ranges	0	0	0	0
4. Other	0	0	0	0
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	0	0	0	0
2. BRAC Installations--ER for Transferring Ranges	0	0	0	0
3. BRAC Installations--Environmental Corrective Action	0	0	0	0
4. Other	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	0	0	0
2. Nuclear Powered Submarines	0	0	0	0
3. Other Nuclear Powered Ships	0	0	0	0
4. Other National Defense Weapons Systems	0	0	0	0
5. Chemical Weapons Disposal Program	0	0	0	0
6. Other	0	0	0	0
2. Total Environmental Liabilities:	$ 0	$ 0	$ 0	$ 0

Other Information and Disclosure

Line 3.A.3. and Line 3.D. – The Missile Defense Agency (MDA) has a formal process to recognize and report, if they exist, a liability and expense for the full amount of environmental cleanup costs resulting from past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable. MDA's Environmental Office, with concurrence from MDA's General Counsel, has indicated that there are no Environmental Liabilities meeting the recognition and disclosure criteria outlined in Statement of Federal Financial Accounting Standard (SFFAS) No. 5, SFFAS No. 6, and the Federal Financial Accounting and Auditing Technical Release No. 2. Accordingly, MDA has not recorded nor disclosed any Environmental Liabilities.

Note Reference

See Note Disclosure 1.S. for additional discussion on financial reporting requirements and Department of Defense (DoD) policies governing Contingencies and Other Liabilities.

For Regulatory Discussion on "Environmental Liabilities," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1016.

Note 15. Other Liabilities

As of September 30 (Amounts in thousands)	2004 Current Liability	2004 Noncurrent Liability	2004 Total	2003 Total
1. Intragovernmental:				
A. Advances from Others	$ 51	$ 0	$ 51	$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	6,971
H. Judgment Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	357	222	579	310
L. Total Intragovernmental Other Liabilities	$ 408	$ 222	$ 630	$ 7,281

As of September 30 (Amounts in thousands)	2004 Current Liability	2004 Noncurrent Liability	2004 Total	2003 Total
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	$ 2,639	$ 0	$ 2,639	$ 1,878
B. Advances from Others	0	0	0	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	1,980
J. Accrued Unfunded Annual Leave	9,936	0	9,936	7,662
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	475	0	475	375
N. Total Non-Federal Other Liabilities	$ 13,050	$ 0	$ 13,050	$ 11,895
3. Total Other Liabilities:	$ 13,458	$ 222	$ 13,680	$ 19,176

Other Information and Disclosure

Composition of Other Liabilities

Types	**FY 2004 ($ in thousand)**	**FY 2003 ($ in thousand)**
Intragovernmental – Other Liabilities		
Retirement	$234	$165
Health Benefits	$119	$85
VSIP	$0	$57
Life	$4	$3
Custodial Liability	$222	$0
Total	**$579**	**$310**
Non-Federal –Other Liabilities		
Employer Contributions and Payroll Taxes Payable	$463	$251
Contract Holdbacks	$12	$5
Other Liabilities	$0	$119
Total	**$475**	**$375**
Total	**$1,055**	**$685**

Fluctuations

Total Intragovernmental Other Liabilities:

Line 1A – Intragovernmental Advances from Others increased by $51 thousand, or 100 percent. This increase is due to the reduction of reimbursable expenses in Limit 25FF. During year-end, adjustments were processed by the accounting office to match earnings to reimbursable expenses. This reduced earnings below the previously collected amount, thus creating an unearned revenue.

Line 1G – Accounts Payable – Cancelled Appropriations decreased by $6,971 thousand, or 100 percent. During FY 2003 in Limit 25FF cancelled year unearned revenue was reclassified to cancelled payables and reported in the financial statements. During the 1st Quarter FY 2004, earnings were posted that liquidated the unearned revenue and the cancelled accounts payable.

Total Non-Federal Other Liabilities:

Line 2A – Accrued Funded Payroll and Benefits increased by $761 thousand. This increase corresponds to an increase in civilian employees. For FY 2004, MDA reported 697 civilian employees, an increase of 153 from the 544 employees reported in FY 2003.

Line 2I – Accounts Payable – Cancelled Appropriations decreased by $1,980 thousand, or 100 percent. This decrease is the result of a liquidation of the Cancelled Accounts Payable in addition to increased efforts during MDA's tri-annual reviews to liquidate canceling payables before year-end.

Line 2J – Accrued Unfunded Annual Leave increased by $2,274 thousand. This increase is due to an increase in civilian employees and the associated annual leave beginning balances. For FY 2004, MDA reported 697 civilian employees, an increase of 153 from the 544 employees reported in FY 2003. The average annual leave beginning balance for new MDA employees is 106 hours. Other factors that affect the difference would include normal fluctuations in pay rate, increased rate of leave for current employees, and other similar items.

Note Reference

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

For Regulatory Discussion on "Other Liabilities," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

Note 16. Commitments and Contingencies

Other Information and Disclosure

Line 3.F. - Probable and estimable unsettled litigation and claims against Missile Defense Agency (MDA) would be recognized, if they existed, as a liability and expense for the full amount of the expected loss. The cases reported as pending litigation by our legal counsel did not meet the loss provision and disclosure criteria outlined in Statement of Federal Financial Accounting Standard

(SFFAS) No. 5 and SFFAS No. 12. Accordingly, MDA has not recorded nor disclosed any Contingent Liabilities.

Note Reference

See Note Disclosure 1. S. for additional discussion on financial reporting requirements and Department of Defense (DoD) 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. Not Applicable

Note 18. Unexpended Appropriations

As of September 30	2004	2003
(Amounts in thousands)		
1. Unexpended Appropriations:		
A. Unobligated, Available	$ 352,513	$ 713,232
B. Unobligated, Unavailable	34,800	28,391
C. Unexpended Obligations	2,811,313	3,041,213
D. Total Unexpended Appropriations	$ 3,198,626	$ 3,782,836

Fluctuations

Unexpended Appropriations decreased by $584,210 thousand due primarily to a change in the mix of appropriations and program received and the corresponding outlay rates associated with those appropriation changes. In FY 2003, MDA received a $660 million Procurement appropriation. In FY 2004, rather than a Procurement appropriation, MDA received an increase of almost $1 billion in its RDT&E appropriation. MDA's outlay rate for the first year of its Procurement appropriation was about 29 percent whereas the outlay rate for the first year of the MDA RDT&E appropriation is about 72 percent. The delta between outlay rates of the Procurement and RDT&E appropriations account for most of the Unexpended Appropriation decrease between FY 2003 and FY 2004.

As noted in the preceding paragraph, a change in MDA's appropriation mix resulted in an increase in MDA's obligation rate. The change in obligation rate accounted for a $360,719 thousand or 51 percent decrease of Unobligated, Avaliable from the close of FY 2003 to the close of FY 2004.

Unobligated, Unavailable balance of $34,801 thousand increased by 23 percent or $6,409 thousand from 4th Quarter FY 2003 and is attributable to an increase in the amount of expired appropriations. Because the expenditure (outlays and payables) rate increased in FY 2004 as noted above, the amount of Unexpended Obligations decreased. Unexpended Obligations, reported as a component of Unexpended Appropriations, include Undelivered Orders-Obligations, Unpaid for $3,070,977 thousand; Undelivered Orders-Obligations, Prepaid/Advanced for $110 thousand; Downward Adjustments of Prior Year Unpaid Undelivered Orders-Obligations, Recoveries for ($295,507) housand; and Upward Adjustments of Prior Year Undelivered Orders-Obligations-Unpaid for $35,733 thousand. This amount is distinct from Line 12 on the Statement of Financing, which includes the change during the fiscal year for all undelivered orders obligations against budget authority from all sources.

Unexpended appropriation balances included on the Missile Defense Agency (MDA) general ledger have been adjusted to reflect the reporting of undistributed disbursements between Treasury of the United States (TUS) records and field level reporting activities.

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

Other Information and Disclosure

Statement of Net Cost

The Consolidated Statement of Net Cost (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

The amounts presented in the SoNC are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. Missile Defense Agency (MDA) generally records transactions on a cash basis and not an accrual basis as is required by generally accepted accounting principles. Therefore, MDA'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 input from non-financial feeder systems; subsequently adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

Fluctuations

Line 1A – The net decrease of $72,461 thousand or 13 percent in Intragovernmental Gross Costs between FY 2004 and FY 2003 is a combination of an increase in the identification of Level 1 Trading Partner Costs in the amount of $107,072 thousand and a decrease of $179,534 thousand in DoD Trading Partner Costs related to the trading partner elimination adjustment made in accordance with the DoD FMR Vol. 6B Chapter 13. Trading partner eliminations adjust the buyer-side intragovernmental transactions to the seller-side intragovernmental transactions. All reporting entities are required to report and eliminate intragovernmental account balances for proprietary accounts. The objective is to offset the effect of transactions between: (A) a DoD reporting entity and other federal agencies, (B) DoD reporting entities, and (C) organizations within a DoD reporting entity. However, the majority of the Department’s accounting systems do not capture trading partner information at the transaction level. Therefore, it is presumed that the amounts of intragovernmental accounts receivable, revenue and advances from others (unearned revenue) reported by the seller are more accurate, and the corresponding amounts reported by the buyer for intragovernmental accounts payable, expenses, and advances must be adjusted to match the seller records.

Line 1B – The decrease of $6,332 thousand or 51 percent in Intragovernmental Earned Revenue is due primarily to the elimination of the reimbursable program from FY 2002 through FY 2004 for the Joint National Integration Center (JNIC), Limit 25FF. Since FY 2002 orders have been accepted on a direct cite basis rather than a reimbursable basis. JNIC reimbursable program accounted for a majority of the MDA reimbursable program.

Line 1D – The increase of $504,432 thousand or 7 percent in Gross Costs With the Public is related to the reclassification of Intragovernmental Gross Costs to Gross Costs With the Public as the result of the trading partner elimination adjustment made in accordance with the DoD FMR Vol. 6B Chapter 13. Trading partner eliminations adjust the buyer-side intragovernmental transactions to the seller-side intragovernmental transactions. All reporting entities are required to report and eliminate intragovernmental account balances for proprietary accounts. The objective is to offset the effect of transactions between: (A) a DoD reporting entity and other federal agencies, (B) DoD reporting entities, and (C) organizations within a DoD reporting entity. However, the majority of the Department’s accounting systems do not capture trading partner information at the transaction level. Therefore, DoD policy presumes that the amounts of intragovernmental accounts receivable, revenue and advances from others (unearned revenue) reported by the seller are more accurate, and the corresponding amounts reported by the buyer for intragovernmental accounts payable, expenses, and advances must be adjusted to match the seller records

Note 19.B.	Not Applicable

Note 19.C.	Not Applicable

Note 19.D.	**Imputed Expenses**

As of September 30 (Amounts in thousands)	2004	2003
1. Civilian (e.g.,CSRS/FERS) Retirement	$ 2,706	$ 2,456
2. Civilian Health	2,535	1,919
3. Civilian Life Insurance	13	11
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	$ 5,254	$ 4,386

Fluctuations

The net change between FY 2004 and FY 2003 imputed expenses is due to an increase in civilian employees. For FY 2004, MDA reported 697 civilian employees, an increase of 153 from the 544 employees reported in FY 2003.

Note Reference

For Regulatory Discussion on “Imputed Expenses,” see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102110.

Note 19.E-19.H.	Not Applicable

Note 19.I.	**Intragovernmental Revenue and Expense**

Other Information and Disclosure

<u>Intragovernmental Revenue</u>

The Missile Defense Agency’s (MDA) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, MDA 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 can not be accomplished with the existing or foreseeable resources.

Intragovernmental Operating Expenses

MDA's operating expenses were adjusted based on a comparison between MDA's accounts payable and the Department of Defense (DoD) summary level seller accounts receivable. An adjustment was posted to Accounts Payable for $1,375 thousand and $440,094 thousand of Operating Expenses were reclassified to Public from Federal to reflect unrecognized accounts payable and operating expenses.

Note Reference

For Regulatory Discussion on "Liabilities Not Covered and Covered by Budgetary Resources," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 102125.

Note 19.J.	Not Applicable

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

As of September 30	Cumulative Results of Operations 2004	Unexpended Appropriations 2004	Cumulative Results of Operations 2003	Unexpended Appropriations 2003
(Amounts in thousands)				
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	$ 0	$ 0	$ 0	$ 0
B. Errors and Omissions in Prior Year Accounting Reports	0	0	0	0
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	$ 0	$ 0	$ 0	$ 0
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	$ 2,706	$ 0	$ 2,456	$ 0
B. Civilian Health	2,535	0	1,919	0
C. Civilian Life Insurance	13	0	11	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	0	0	0	0
G. Total Imputed Financing	$ 5,254	$ 0	$ 4,386	$ 0

Other Information and Disclosure

Imputed Financing

The amounts remitted to Office of Personnel Management (OPM) by and for employees covered by the Civil Service Retirement System (CSRS), Federal Employee Retirement System (FERS), Federal Employees Health Benefits Program (FEHB) and the Federal Employee 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 employee and contributions made by and for them. The imputed financing cost factors are provided by OPM to the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R)) and DFAS. DFAS provides civilian employees' base salary and number of employees electing health benefits by reporting entity to the OUSD(P&R). The OUSD (P&R) computes and validates the imputed expenses for civilian employees' retirement and other benefits and provides it to the reporting components.

Note Reference

For Regulatory Discussion on "Liabilities Not Covered and Covered by Budgetary Resources," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1022.

Note 21. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2004	2003
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 2,825,232	$ 3,054,892
2. Available Borrowing and Contract Authority at the End of the Period	$ 0	$ 0

Other Information and Disclosure

There is no direct correlation between Line 1 reported above to any specific line on the Statement of Budgetary Resources (SBR). The Net Amount of Budgetary Resources Obligated for Undelivered Orders disclosed on this note contains the following accounts: Undelivered Orders-Obligations Prepaid/Advanced, Undelivered Orders-Obligations Unpaid, and Downward/Upward Adjustments of Prior-Year Unpaid Undelivered Orders. The SBR Line 14C "Undelivered Orders" contains all of the referenced accounts excluding Undelivered Orders-Obligations Prepaid/Advanced. In addition, Line 14C includes the reporting of Undelivered Orders-Obligations Transferred.

Unobligated Balance

MDA's unobligated balance of budget authority as of September 30, 2004, is $741,624 thousand. The amount consists of $317,635 thousand of Procurement appropriations, $409,666 thousand of Research, Development, Testing & Evaluation appropriations, and $14,323 thousand of Military Construction appropriations.

Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records, versus those reported by the Treasury of the United States (TUS) via the reconciled DD 1329 and DD 1400 reports. This difference should agree with the undistributed amounts reported on accounting reports (SF 133/ DD (M) 1002). Intransit payments are payments that have been made by other agencies or entities that have not been recorded in MDA's accounting records. These payments are applied to MDA's outstanding undelivered orders at year-end.

Undelivered Orders

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

Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in the "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

Note Reference

For Regulatory Discussion on "The Statement of Budgetary Resources," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1023.

Note 22. Disclosures Related to the Statement of Financing

Other Information and Disclosure

The Statement of Financing demonstrates the relationship between budgetary amounts reported on the Statement of Budgetary Resources and the proprietary amounts reported on the Statement of Net Cost. In previous periods, an adjustment was needed to Line 27, "Components Not Requiring or Generating Resources-Other," in order to reconcile the reporting of Net Cost of Operations between Line 4 on the Statement of Net Cost and Line 30 on the Statement of Financing. The transactions that generated the differences in previous periods were resolved during FY 2004, therefore, no adjustment was needed to reconcile the Statement of Financing to the Statement of Budgetary Resources.

Note Reference

For Regulatory Discussion on "The Statement of Financing," see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1024.

Note 23.	Not Applicable

Note 24.A	Not Applicable

Note 24.B.	**Other Disclosures**

Comparative Data

The financial statements and accompanying notes to the financial statements report the financial position as of September 30, 2004, and the results of operations for the fiscal year then ended. Fluctuations between FY 2004 and FY 2003 financial statements are explained within the notes to the financial statements.

Estimated Military Costs

The Missile Defense Agency (MDA) reports the following estimated military costs for FY 2004 based on the FY 2004 Department of Defense (DoD) Military Personnel Composite Standard Pay and Reimbursement Rates:

Military Salaries & Benefits: $17,556 thousand

Military end strength as of September 30, 2004:

	On-Board	Authorized
Officers	119	133
Enlisted	10	13
Total	129	146

FY 2004 ANNUAL FINANCIAL STATEMENTS

Department of Defense

Missile Defense Agency

Supporting Consolidating/Combining Statements

Missile Defense Agency
CONSOLIDATING BALANCE SHEET
As of September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction - MDA	MDA Component Level	Combined Total	2004 Consolidated	2003 Consolidated
1. ASSETS (Note 2)							
A. Intragovernmental:							
1. Fund Balance with Treasury (Note 3)							
a. Entity	561,628	2,928,977	42,571	$ 0	3,533,176	3,533,176	3,876,536
b. Non-Entity Seized Iraqi Cash	0	0	0	0	0	0	0
c. Non-Entity-Other	0	0	0	0	0	0	0
2. Investments (Note 4)	0	0	0	0	0	0	0
3. Accounts Receivable (Note 5)	0	477	0	0	477	477	11,718
4. Other Assets (Note 6)	0	0	0	5	5	5	121
5. Total Intragovernmental Assets	561,628	2,929,454	42,571	$ 5	3,533,658	3,533,658	3,888,375
B. Cash and Other Monetary Assets (Note 7)	0	0	0	0	0	0	0
C. Accounts Receivable (Note 5)	0	403	0	0	403	403	336
D. Loans Receivable (Note 8)	0	0	0	0	0	0	0
E. Inventory and Related Property (Note 9)	0	0	0	0	0	0	0
F. General Property, Plant and Equipment (Note 10)	0	15,968	0	0	15,968	15,968	0
G. Investments (Note 4)	0	0	0	0	0	0	0
H. Other Assets (Note 6)	109,107	20,453	0	0	129,560	129,560	139,518
2. TOTAL ASSETS	670,735	2,966,278	42,571	$ 5	3,679,589	3,679,589	4,028,229
3. LIABILITIES (Note 11)							
A. Intragovernmental:							
1. Accounts Payable (Note 12)	1,092	28,762	65	$ 1,375	31,294	31,294	58,938
2. Debt (Note 13)	0	0	0	0	0	0	0
3. Environmental Liabilities (Note 14)	0	0	0	0	0	0	0
4. Other Liabilities (Note 15 & Note 16)	0	630	0	0	630	630	7,281
5. Total Intragovernmental Liabilities	1,092	29,392	65	$ 1,375	31,924	31,924	66,219
B. Accounts Payable (Note 12)	9,831	317,299	187	$ 0	327,317	327,317	46,545
C. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0	0	0	0
D. Environmental Liabilities (Note 14)	0	0	0	0	0	0	0
E. Loan Guarantee Liability (Note 8)	0	0	0	0	0	0	0
F. Other Liabilities (Note 15 & Note 16)	0	13,038	12	0	13,050	13,050	11,895
G. Debt Held by Public (Note 13)	0	0	0	0	0	0	0
4. TOTAL LIABILITIES	10,923	359,729	264	$ 1,375	372,291	372,291	124,659
5. NET POSITION							
A. Unexpended Appropriations (Note 18)	552,852	2,604,837	42,307	$ (1,370)	3,198,626	3,198,626	3,782,836
B. Cumulative Results of Operations	106,960	1,712	0	0	108,672	108,672	120,734
6. TOTAL NET POSITION	659,812	2,606,549	42,307	$ (1,370)	3,307,298	3,307,298	3,903,570
7. TOTAL LIABILITIES AND NET POSITION	670,735	2,966,278	42,571	$ 5	3,679,589	3,679,589	4,028,229

Missile Defense Agency
CONSOLIDATING STATEMENT OF NET COST
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction - MDA	MDA Component Level	Combined Total	2004 Consolidated	2003 Consolidated
1. Program Costs							
A. Intragovernmental Gross Costs	882	971,408	23,870	(490,431)	505,729	505,729	578,190
B. (Less: Intragovernmental Earned Revenue)	0	(7,452)	0	1,346	(6,106)	(6,106)	(12,438)
C. Intragovernmental Net Costs	882	963,956	23,870	(489,085)	499,623	499,623	565,752
D. Gross Costs With the Public	547,908	6,686,522	(5,092)	441,464	7,670,802	7,670,802	7,166,370
E. (Less: Earned Revenue From the Public)	0	0	0	0	0	0	(1)
F. Net Costs With the Public	547,908	6,686,522	(5,092)	441,464	7,670,802	7,670,802	7,166,369
G. Total Net Cost	548,790	7,650,478	18,778	(47,621)	8,170,425	8,170,425	7,732,121
2. Cost Not Assigned to Programs	0	0	0	0	0	0	0
3. (Less: Earned Revenue Not Attributable to Programs)	0	0	0	0	0	0	0
4. Net Cost of Operations	548,790	7,650,478	18,778	(47,621)	8,170,425	8,170,425	7,732,121

Missile Defense Agency
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction - MDA	MDA Component Level	Combined Total	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS							
1. Beginning Balances	122,166	(1,432)	0	$ 0	120,734	120,734	41,195
2. Prior period adjustments (+/-)							
2.A. Prior Period Adjustments – Restated (+/-)	0	0	0	0	0	0	0
2.B. Beginning Balance, Restated	122,166	(1,432)	0	0	120,734	120,734	41,195
2.C. Prior Period Adjustments – Not Restated (+/-)	0	0	0	0	0	0	0
3. Beginning Balances, as adjusted	122,166	(1,432)	0	0	120,734	120,734	41,195
4. Budgetary Financing Sources:							
4.A. Appropriations received	0	0	0	0	0	0	0
4.B. Appropriations transferred-in/out (+/-)	0	0	0	0	0	0	0
4.C. Other adjustments (rescissions, etc) (+/-)	0	0	0	0	0	0	0
4.D. Appropriations used	548,764	7,655,442	18,778	(47,620)	8,175,364	8,175,364	7,870,007
4.E. Nonexchange revenue	0	0	0	0	0	0	(1)
4.F. Donations and forfeitures of cash and cash equivalents	0	0	0	0	0	0	0
4.G. Transfers-in/out without reimbursement (+/-)	0	0	0	0	0	0	0
4.H. Other budgetary financing sources (+/-)	(15,180)	(838)	29,412	0	13,394	13,394	94,881
5. Other Financing Sources:							
5.A. Donations and forfeitures of property	0	0	0	0	0	0	0
5.B. Transfers-in/out without reimbursement (+/-)	0	(6,237)	(29,412)	0	(35,649)	(35,649)	(157,611)
5.C. Imputed financing from costs absorbed by others	0	5,254	0	0	5,254	5,254	4,386
5.D. Other (+/-)	0	0	0	0	0	0	0
6. Total Financing Sources	533,584	7,653,621	18,778	(47,620)	8,158,363	8,158,363	7,811,662
7. Net Cost of Operations (+/-)	548,790	7,650,478	18,778	(47,621)	8,170,425	8,170,425	7,732,121
8. Ending Balances	106,960	1,711	0	$ 1	108,672	108,672	120,736

Missile Defense Agency
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction - MDA	MDA Component Level	Combined Total	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS							
1. Beginning Balances	1,106,868	2,690,299	34,660	$ (48,991)	3,782,836	$ 3,782,836	4,336,599
2. Prior period adjustments (+/-)							
2.A. Prior Period Adjustments – Restated (+/-)	0	0	0	0	0	0	0
2.B. Beginning Balance, Restated	1,106,868	2,690,299	34,660	(48,991)	3,782,836	3,782,836	4,336,599
2.C. Prior Period Adjustments – Not Restated (+/-)	0	0	0	0	0	0	0
3. Beginning Balances, as adjusted	1,106,868	2,690,299	34,660	(48,991)	3,782,836	3,782,836	4,336,599
4. Budgetary Financing Sources:							
4.A. Appropriations received	0	7,665,161	24,440	0	7,689,601	7,689,601	7,338,157
4.B. Appropriations transferred-in/out (+/-)	0	26,553	1,984	0	28,537	28,537	99,788
4.C. Other adjustments (rescissions, etc) (+/-)	(5,251)	(121,733)	0	1	(126,983)	(126,983)	(121,702)
4.D. Appropriations used	(548,764)	(7,655,442)	(18,778)	47,622	(8,175,362)	(8,175,362)	(7,870,007)
4.E. Nonexchange revenue	0	0	0	0	0	0	0
4.F. Donations and forfeitures of cash and cash Equivalents	0	0	0	0	0	0	0
4.G. Transfers-in/out without reimbursement (+/-)	0	0	0	0	0	0	0
4.H. Other budgetary financing sources (+/-)	0	0	0	0	0	0	0
5. Other Financing Sources:							
5.A. Donations and forfeitures of property	0	0	0	0	0	0	0
5.B. Transfers-in/out without reimbursement (+/-)	0	0	0	0	0	0	0
5.C. Imputed financing from costs absorbed by others	0	0	0	0	0	0	0
5.D. Other (+/-)	0	0	0	0	0	0	0
6. Total Financing Sources	(554,015)	(85,461)	7,646	47,623	(584,207)	(584,207)	(553,764)
7. Net Cost of Operations (+/-)	0	0	0	0	0	0	0
8. Ending Balances	552,853	2,604,838	42,306	$ (1,368)	3,198,629	$ 3,198,629	3,782,835

Missile Defense Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction – MDA	MDA Component Level	2004 Combined	2003 Combined
BUDGETARY FINANCING ACCOUNTS						
BUDGETARY RESOURCES						
1. Budget Authority:						
1a. Appropriations received	0	7,665,161	24,440	$ 0	7,689,601	7,338,157
1b. Borrowing authority	0	0	0	0	0	0
1c. Contract authority	0	0	0	0	0	0
1d. Net transfers (+/-)	0	26,570	0	0	26,570	80,143
1e. Other	0	0	0	0	0	0
2. Unobligated balance:						
2a. Beginning of period	317,636	409,665	14,323	0	741,624	960,925
2b. Net transfers, actual (+/-)	0	(17)	1,984	0	1,967	19,645
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	18,735	0	0	18,735	13,637
2. Receivable from Federal sources	0	(11,282)	0	0	(11,282)	(175)
3b. Change in unfilled customer orders	0	0	0	0	0	0
1. Advance received	0	(7,564)	0	0	(7,564)	(128)
2. Without advance from Federal sources	0	380	0	0	380	1,720
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	269	0	0	269	15,054
4. Recoveries of prior year obligations	23,916	274,593	3,476	0	301,985	550,099
5. Temporarily not available pursuant to Public Law	0	0	0	0	0	0
6. Permanently not available	(5,251)	(121,733)	0	0	(126,984)	(121,702)
7. Total Budgetary Resources	336,301	8,254,508	44,223	$ 0	8,635,032	8,842,321

Missile Defense Agency
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction – MDA	MDA Component Level	2004 Combined	2003 Combined
STATUS OF BUDGETARY RESOURCES						
8. Obligations incurred:						
8a. Direct	326,398	7,906,153	5,794	$ 0	8,238,345	8,085,813
8b. Reimbursable	0	9,374	0	0	9,374	14,885
8c. Subtotal	326,398	7,915,527	5,794	0	8,247,719	8,100,698
9. Unobligated balance:						
9a. Apportioned	6,722	307,410	38,382	0	352,514	713,233
9b. Exempt from apportionment	0	0	0	0	0	0
9c. Other available	0	(1)	0	0	(1)	(2)
10. Unobligated Balances Not Available	3,181	31,572	47	0	34,800	28,392
11. Total, Status of Budgetary Resources	336,301	8,254,508	44,223	$ 0	8,635,032	8,842,321
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:						
12. Obligated Balance, Net - beginning of period	793,053	2,323,989	20,406	$ 0	3,137,448	3,272,741
13. Obligated Balance transferred, net (+/-)	0	0	0	0	0	0
14. Obligated Balance, Net - end of period:						
14a. Accounts receivable	0	(658)	0	0	(658)	(11,940)
14b. Unfilled customer order from Federal sources	0	(12,950)	0	0	(12,950)	(12,570)
14c. Undelivered orders	542,950	2,279,671	3,877	(1,375)	2,825,123	3,054,025
14d. Accounts payable	10,897	4,702	264	1,375	17,238	107,932
15. Outlays:						
15a. Disbursements	541,688	7,705,060	18,582	0	8,265,330	7,684,347
15b. Collections	0	(11,171)	0	0	(11,171)	(13,508)
15c. Subtotal	541,688	7,693,889	18,582	0	8,254,159	7,670,839
16. Less: Offsetting receipts	0	0	0	0	0	0
17. Net Outlays	541,688	7,693,889	18,582	$ 0	8,254,159	7,670,839

Missile Defense Agency
COMBINING STATEMENT OF FINANCING
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation – MDA	Military Construction - MDA	MDA Component Level	2004 Combined	2003 Combined
Resources Used to Finance Activities:						
Budgetary Resources Obligated						
1. Obligations incurred	326,398	7,915,526	5,794	$ 0	8,247,718	8,100,698
2. Less: Spending authority from offsetting collections and recoveries (-)	(23,916)	(274,861)	(3,476)	0	(302,253)	(565,152)
3. Obligations net of offsetting collections and recoveries	302,482	7,640,665	2,318	0	7,945,465	7,535,546
4. Less: Offsetting receipts (-)	0	0	0	0	0	0
5. Net obligations	302,482	7,640,665	2,318	0	7,945,465	7,535,546
Other Resources						
6. Donations and forfeitures of property	0	0	0	0	0	0
7. Transfers in/out without reimbursement ()	0	(6,237)	(29,412)	0	(35,649)	(157,611)
8. Imputed financing from costs absorbed by others	0	5,254	0	0	5,254	4,386
9. Other ()	0	0	0	0	0	0
10. Net other resources used to finance activities	0	(983)	(29,412)	0	(30,395)	(153,225)
11. Total resources used to finance activities	302,482	7,639,682	(27,094)	0	7,915,070	7,382,321
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 (-)	246,283	14,537	16,460	(47,621)	229,659	170,188
12b. Unfilled Customer Orders	0	(7,184)	0	0	(7,184)	1,591
13. Resources that fund expenses recognized in prior periods	(342)	(5,649)	0	0	(5,991)	(5,371)
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	0	0	0	0	0	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	0	0	0	0	0	0
16b. Other ()	0	6,237	29,412	0	35,649	0
17. Total resources used to finance items not part of the net cost of operations	245,941	7,941	45,872	(47,621)	252,133	166,408
18. Total resources used to finance the net cost of operations	548,423	7,647,623	18,778	(47,621)	8,167,203	7,548,729

Missile Defense Agency
COMBINING STATEMENT OF FINANCING
For the Periods Ended September 30, 2004 and 2003
(Amounts in thousands)

	Procurement - MDA	Research, Development Test & Evaluation - MDA	Military Construction - MDA	MDA Component Level	2004 Combined	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	368	2,781	0	0	3,149	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 public (-)	0	0	0	0	0	0
23. Other ()	0	0	0	0	0	7,862
24. Total components of Net Cost of Operations that will require or generate resources in future period	368	2,781	0	0	3,149	7,862
Components not Requiring or Generating Resources:						
25. Depreciation and amortization	0	0	0	0	0	0
26. Revaluation of assets or liabilities ()	0	0	0	0	0	0
27. Other ()						
27a. Trust Fund Exchange Revenue	0	0	0	0	0	0
27b. Cost of Goods Sold	0	0	0	0	0	0
27c. Operating Material & Supplies Used	0	0	0	0	0	0
27d. Other	0	73	0	0	73	175,533
28. Total components of Net Cost of Operations that will not require or generate resources	0	73	0	0	73	175,533
29. Total components of net cost of operations that will not require or generate resources in the current period	368	2,854	0	0	3,222	183,395
30. Net Cost of Operations	548,791	7,650,477	18,778	(47,621)	8,170,425	7,732,124

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Required Supplementary Stewardship Information

Investments in Research, Development, Testing & Evaluation (RDT&E):

MISSILE DEFENSE AGENCY INVESTMENTS IN RESEARCH, DEVELOPMENT, TESTING AND EVALUATION Yearly Investments in Research and Development For Fiscal Years 2000 through 2004 (Outlays in Millions of Dollars)					
Categories	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**
1. Applied Research	108	104	42	11	1
2. Development **i. Advanced Technology Development**	259	208	160	171	184
ii. Demonstration and Validation	3,290	3,091	4,394	5,553	7,212
iii. Engineering and Manufacturing Development	623	843	1,005	1,083	277
iv. RDT&E Management Support	3	16	117	143	201
v. Operational Systems Development					
TOTALS	**4,283**	**4,262**	**5,718**	**6,961**	**7,875**

Table 1: Yearly Investments in Research and Development for FY 2000-2004

Table Explanation: The reported amounts in Table 1 are not cumulative, are in millions of dollars, and represent only investments incurred for the fiscal year (FY) shown in the appropriate columns. In prior financial statements, amounts represented the current year activity incurred for the appropriations shown (i.e., current year activity outlays for the FY 2000, FY 2001, FY 2002, FY 2003 appropriations during October 1, 2002-September 30, 2003). After further research and comparison with other agencies' financial statements, this table has been revised to report static amounts for the prior FY columns. The FY columns now represent the total activity incurred for all appropriations during the particular FY timeframe (i.e., the FY 2000 column represents all activity (outlays) incurred for all appropriations during FY 2000, the FY 2001 column represents all activity (outlays) incurred during FY 2001, etc.). This change will enhance the readability of the table and enable comparability between yearly financial statements. RDT&E investments disclosed in Table 1 were derived from RDT&E outlays reflected in the budget execution DD Form 1002 reports "Appropriation Status by Fiscal Year Program" as of September 30 for the applicable FY.

Investment in Research Development Test & Evaluation (RDT&E) refers to those outlays incurred in the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. RDT&E outlays are reported in Table 1 above.

RDT&E is composed of:

I. 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 from applied research are scientific studies, investigations, research papers, hardware components, software codes, limited construction or part of a weapon system to include non-system specific development efforts.

Applied research funding is invested in aggressive programs of high leverage technologies that yield noticeably improved capabilities across a selected range of boost phase methods and terminal defense interceptors, advanced target sensors and innovative science.

Example of Applied Research programs conducted by MDA:

Innovative Science and Technology (IST)

Program investments are provided for high-risk technologies that could significantly change how MDA develops future systems. Investments were provided to continue development on (1) sensing, imaging, ranging, discrimination, (2) phenomenology studies and boost phase intercept handover, (3) electronic and photonic materials and devices, (4) wide bandwidth technology, (5) information processing and computing technologies, (6) directed energy, non-linear optical devices and processes, (7) Miniature Interceptor Technology (MIT) propulsion and kill enhancement, (8) power generation, conditioning and thermal management. Other Applied Research projects are closely aligned with existing MDA Surveillance and Battle Management, Command, Control, Communications, Computers and Intelligence (BMC4I) technology efforts. Investments in these programs continue to provide a Test Bed for advance sensor demonstrations and to provide coverage for national missions.

II. 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 the five stages defined below:

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

2. Demonstration and Validation evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. It consists primarily of preproduction efforts, to include logistics and repair studies. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

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

4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

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

Examples of RDT&E Development conducted by MDA:

The Ground-Based Midcourse Defense (GMD)

The GMD segment of the Ballistic Missile Defense System (BMDS) consists of a series of block development efforts supporting the midcourse phase of the BMDS. The GMD employs hit-to-kill technologies to intercept ballistic missiles in the midcourse phase of flight to defend homeland, deployed forces, friends, and allies. Block 2004 will deliver and field the initial infrastructure, field the initial increment of interceptors, and provide for initial sustainment infrastructure for the Limited Defensive Capability (LDC).

Block 2004 will be completed in two phases. The first phase, the initial BMDS Test Bed with a limited defensive capability is to be completed by 31 December 2004. Four BMDS Engagement Sequence Groups (ESGs) - (Engage on AEGIS, Launch on AEGIS, Engage on Cobra Dane Upgrade Early Warning Radar (UEWR), and Engage on Beale (UEWR) - are the focus of LDC in the first phase.

The second phase will be completed by December 2005. It provides an enhanced capability and additional assets that can also be utilized for the BMDS Test Bed. Two additional ESGs (Engage on Sea-based X-band Radar (SBX) and Engage on Fylingdales UEWR)) will be added by the end of Block 2004. Block 2006 incorporates at least three additional BMDS ESGs (Engage on Thule Interim Upgrade Early Warning Radar (IUEWR), Launch on DSP/SBIRS, and Launch/Engage on Forward-Based X-Band Radar (FBX)). Block 2008 incorporates two additional BMDS LDC ESGs (Launch/Engage on Electro-Optics/Infrared (EO/IR), and Launch/Engage on THAAD). ESGs are embedded into the GMD Integrated Test Program.

Aegis BMD Program

The Aegis BMD Program is a sea-based element of the Ballistic Missile Defense System (BMDS). Aegis BMD provides Long Range Surveillance and Track (LRS&T) and Engagement capability to the BMD mission of intercepting ballistic missile threats in 1) all regions within range of international waters including Japan and other allied countries, 2) all phases of ballistic missile flight including boost, midcourse, and terminal, and 3) against all threat ranges including short, medium and long-range ballistic missiles.

Aegis BMD continues to support the BMDS goal to improve missile defense capability by introducing All-Reflective Optics and an Advanced Signal Processor in Standard Missile 3 (SM-3) Block IA missiles. The optics and processing improvements will enhance the Aegis BMD contribution to the Limited Defense Operations (LDO) capability. Enhancement of the AN/SPY-1 radar will be achieved with the development and fielding of an Aegis BMD Signal Processor (BSP) that will improve remote tracking capability for BMDS as well as providing enhanced local engage capability against more robust threats.

Aegis BMD, through collaboration with Ground-based Midcourse Defense (GMD) and the MDA National Team (MDNT), is also contributing to the development of Engagement Sequence Groups (ESGs). Aegis BMD provides autonomous engagement against Short Range Ballistic Missiles (SRBMs) using external Ground Based Sensors and Tactical Digital Information Link "J" (TADIL J) cueing (SM-3 Cued ESG). In addition, Aegis BMD will provide cueing data to support Ground Based Interceptor (GBI) Launch and Engagement against Long Range Ballistic Missiles (LRBM) via input for the GMD Sensor Task Plan (STP) and Weapons Task Plan (WTP). Aegis BMD will support a Launch/Engage on TADIL J against MRBMs and Intermediate Range Ballistic Missiles (IRBMs) using Army/Navy Aegis Radar (AN/SPY-1) Radar data from another Aegis BMD ship.

FY 2004 Missile Defense Agency Accomplishments

During FY 2004, associated launch support equipment was delivered. Additionally, accomplishments include the following:

- Tests / Testing Exercises
    - Completed System-Wide Integrated Missile Defense War Game
    - Successful Aegis Ballistic Missile Defense FM-6 Intercept
    - Successful Ballistic Missile Defense Booster Verification-5 Flight Test
    - Successful Ground-based Midcourse Defense IFT-13b Flight Test
    - Completed Missile Defense Integration Exercise 04a
    - Glory Trip – 185 Risk Reduction Flight
    - Completed Integrated Ground Test (IGT-2)
- Limited Defensive Capability Construction
    - Ft. Greely, AK
    - Eareckson Air Station, Shemya Island, AK
    - Vandenberg AFB, CA
- Limited Defensive Capability Integration Activities Ongoing
- Fielding The BMDS Initial Defense Capability

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Required Supplementary Information

Required Supplemental Information - Part A

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
MDA - Missile Defense Agency

Schedule, Part A DoD Intragovernmental Asset Balances. (Amounts in thousands)	Treasury Index:	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		$38			
Department of the Treasury	20	$3,533,175				
Army General Fund	21		$13			$1
Air Force General Fund	57		$320			$4
General Funds	97		$106			$0
Totals		$3,533,175	$477			$5

Required Supplemental Information - Part B

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
MDA - Missile Defense Agency

Schedule, Part B DoD Intragovernmental entity liabilities. (Amounts in thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Navy General Fund	17	$11		
Army General Fund	21	$10,995		
Office of Personnel Management	24			$357
Air Force General Fund	57	$10,889		
US Army Corps of Engineers	96	$12		
Other Defense Organizations General Funds	97	$1,654		$51
Other Defense Organizations Working Capital Funds	97-4930	$1,510		
Navy Working Capital Fund	97-4930.002	$6,185		
Air Force Working Capital Fund	97-4930.003	$8		
The General Fund of the Treasury	99	$29		$222
Totals		$31,293		$630

Required Supplemental Information - Part C

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
MDA - Missile Defense Agency

Schedule, Part C DoD Intragovernmental revenue and related costs. (Amounts in thousands)	Treasury Index:	Earned Revenue
Executive Office of the President	11	$154
Navy General Fund	17	$3,771
Army General Fund	21	$236
Air Force General Fund	57	
Other Defense Organizations General Funds	97	$1,862
Other Defense Organizations Working Capital Funds	97-4930	$83
The General Fund of the Treasury	99	
Totals		6,106

Required Supplemental Information - Part E

AT97 - Other Defense Organizations General Funds
Under Secretary of Defense (Acquisition, Technology, and Logistics)
MDA - Missile Defense Agency

Schedule, Part E DoD Intragovernmental Non-Exchange Revenues (Amounts in thousands)	Treasury Index:	Transfers In	Transfers Out
Army General Fund	21		$34,128
Air Force General Fund	57		$1,521
Totals			35,649