



## Defense Threat Reduction Agency

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### MESSAGE FROM THE COMPTROLLER

Enclosed are the Defense Threat Reduction Agency (DTRA) unaudited financial statements for fiscal year (FY) 2003. These statements summarize the Agency's financial activity for FY 2003 and include the Management Discussion and Analysis Statement, outlining the mission, performance and financial condition of the organization.

Improving financial management and business processes remains a primary commitment and principal challenge at DTRA. As a result of several improvements, DTRA achieved a clean audit opinion on the DTRA portion of the FY 2002 financial statements. The FY 2003 audit is in progress. An independent certified public accounting firm is currently performing an assessment of the FY 2003 financial statements for the Chemical/Biological Defense Program. Emphasis on managerial accounting and improved access to feeder systems and warehoused data will strengthen DTRA's posture for the future.

Our accomplishments are encouraging and ongoing, but we recognize that our business is ever changing and the challenges will continue. DTRA is committed to improving its financial management capability.

  
Wanda L.P. Smith  
Acting Comptroller



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**TAB A**

**MANAGEMENT DISCUSSION AND ANALYSIS**



**DEFENSE THREAT REDUCTION AGENCY  
FY 2003 FINANCIAL STATEMENT  
MANAGEMENT DISCUSSION AND ANALYSIS**

**DESCRIPTION OF THE REPORTING ENTITY:**

The 1997 Defense Reform Initiative established the Defense Threat Reduction Agency (DTRA), which brought together elements within DoD that were involved in reducing the global threat of weapons of mass destruction (WMD). The use or threatened use of weapons of mass destruction poses a complex and growing security issue facing our nation as evidenced by the events of September 11, 2001. The mission of the DTRA is to make the world safer by reducing the threat of WMD. DTRA's FY 2003 financial statements represent a carefully balanced program in support of its mission to safeguard America's interests from WMD (chemical, biological, radiological, nuclear and high explosives (CBRNE)) by controlling and reducing the threat and providing quality tools and services for the warfighter. The following strategic goals provide the framework for the accomplishment of DTRA's mission:

- *Deter the Use and Reduce the Impact of WMD* – Terrorists and hostile states continue to develop and accumulate WMD. Once unthinkable, WMD use against the U.S. is now a real and growing threat. The fundamental goal of deterring the use of WMD continues to underpin the mission and activities of DTRA. DTRA will pursue a multi-faceted approach, focusing on the U.S. nuclear force, support of missile defense programs, and the science, technology, and demonstration of counterproliferation capabilities, and will enhance its support to civil and military crisis and consequence management response capabilities.
- *Reduce the Present Threat* – The U.S. seeks to reduce the threat from WMD and conventional forces. DTRA will execute and look to expand treaty and non-treaty efforts to control, safeguard and eliminate existing weapon capabilities, and will foster efforts to evaluate and counter WMD threats from all potential adversaries.
- *Prepare for Future Threats* – DTRA will strive to predict emerging WMD capabilities, evaluate threats from potential adversaries, and develop new technologies to assist the warfighter of the future by providing powerful tools to counter specific threats and to protect personnel, infrastructure, and mission critical systems.
- *Conduct the Right Programs in the Best Manner* – DTRA is committed to being a good steward of the nation's resources. DTRA will review its





programs regularly, incorporate best business practices, optimize current workforce distribution, and determine future needs, and will build relationships with DoD, U.S. government, industry and international partners concerned with threat reduction.

- *Develop Our People and Enable Them to Succeed* – DTRA is committed to attracting and retaining a trained, satisfied and highly-motivated workforce. DTRA will clearly articulate its values and expected behaviors, encourage and reward excellence, and sustain high individual and organizational performance. DTRA will further strive to create an effective, healthy, safe, secure and accessible workplace.

Since the formation of DTRA on 1 October 1998, DTRA has steadily increased its capabilities and worked to transform the way DoD responds to an increasingly complex WMD threat environment. DTRA has become the go-to Agency for the warfighter in combating WMD threats. The Agency provides the Combatant Commanders with the resources required to eliminate present and over-the-horizon threats.

DTRA is a DoD Agency under the authority, direction, and control of the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)). A Threat Reduction Advisory Committee (TRAC), composed of distinguished policy, scientific and defense experts, has also been established to advise and assist the USD(AT&L), DTRA and other senior defense officials in identifying threats and emerging WMD challenges. DTRA has been designated as a Combat Support Agency, and as such, is responsible to the Chairman, Joint Chiefs of Staff, for designated combat support and other operational activities.

During FY 2003, DTRA was organized into the following program directorates directly supporting DTRA's mission essential functions. A supporting infrastructure also exists to accomplish the spectrum of enabling functions and other essential Agency-wide support. DTRA's program directorates include:

- Combat Support (CS)
- Technology Development (TD)
- Cooperative Threat Reduction (CT)
- Chemical/Biological Defense (CB)
- On-Site Inspection (OS)
- Iraq Weapons Elimination (WE)

DTRA is supported by the Advanced Systems and Concepts Office (ASCO), which is fully engaged to develop and maintain an evolving analytical vision of necessary



and sufficient capabilities to protect the U.S. and its allies from emerging WMD threats. ASCO analyzes future WMD threats, forecasts requirements, and integrates the results into the Agency's overall planning. It supports DTRA through projects that are designed to encourage alternative thinking, innovative strategies, and cross-cutting integrated approaches to WMD threats. ASCO integrates its work with the advice and recommendations of the TRAC. The DTRA organizational structure is depicted in Figure 1 below. It should be noted that the former DTRA Resource Management, Information Management and Acquisition and Logistics Directorates have been combined into an integrated Business Directorate effective 1 October 2003.

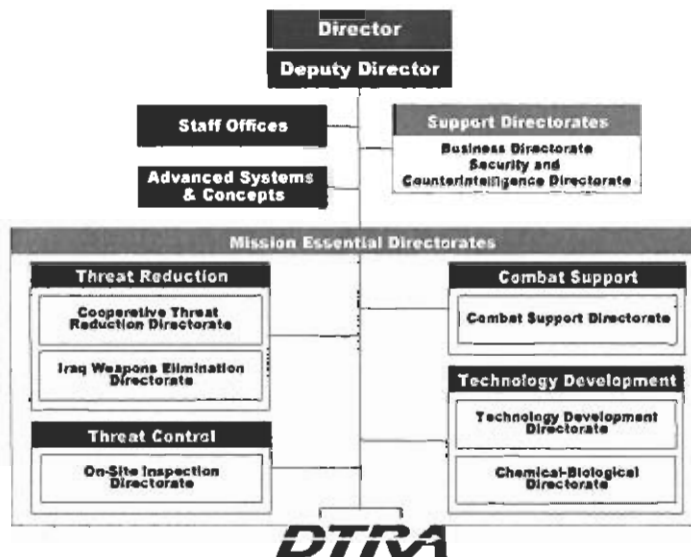


Figure 1

DTRA continues to make progress towards its goal of achieving optimal organizational synergy, efficiency, and force protection by consolidating DTRA National Capital Region (NCR) activities in one geographic location. This goal of establishing the Defense Threat Reduction Center at Ft. Belvoir, VA is well on its way to realization. In addition to its NCR activities, DTRA maintains worldwide operations in support of its global missions. DTRA maintains operations in Albuquerque, New Mexico, San Francisco, California, and Mercury, Nevada. Additionally, Germany is home to the European Operations Division of the On-Site Inspection Directorate, and provides gateway support to American inspection teams transiting from the U.S. to points further east. DTRA mans and operates the Arms Control Implementation Units located within the U.S. embassies in Kazakhstan, Russia and the Ukraine. DTRA employees provide support for U.S. inspection, observation and portal monitoring teams throughout the former Soviet Union (FSU), as well as for the implementation of the Cooperative Threat Reduction program. Employees of DTRA's On-Site Inspection Directorate stationed in



Japan also assist U.S. inspection and observation teams traveling to far east points of entry in the FSU. In recognition of DTRA's combat support mission, liaison personnel are also located at appropriate sites to enhance responsiveness to the Combatant Commanders in meeting critical warfighting needs.

A summary of DTRA's direct FY 2003 total obligation authority, broken out by appropriation, is shown below. With an authorized strength of 955 civilian full-time-equivalent (FTE) workyears and 952 active duty military, DTRA utilizes its broad resource portfolio to accomplish the Agency's diverse mission.

<b>Appropriation</b>	<b>FY 2003 Budget Authority</b>
Operation and Maintenance	\$361.0M
RDT&E	\$498.3M
Procurement	\$36.1M
Military Construction	\$50.2M
Former Soviet Union Threat Reduction	\$414.4M
<b>Total</b>	<b>\$1,360.0M</b>

**PERFORMANCE GOALS, OBJECTIVES, AND RESULTS:**

The Agency receives strategic planning guidance from the National Military Strategy and Departmental planning guidelines. Through our strategic planning process, DTRA ensures the products and services offered enhance DoD's capabilities to achieve these national military objectives and operational requirements.

To accomplish the overall Agency mission, DTRA has identified key mission essential functions that must be performed. Accordingly, resources have been allocated to support critical requirements across the spectrum of combat support, technology development, threat control, and threat reduction mission areas.

- *Combat Support* – DTRA provides combat support to the Joint Chiefs of Staff (JCS), the Joint Staff, the Combatant Commanders and the military services to deter, engage, and assess the threat and challenges posed to the U.S., its forces, and its allies by WMD.
- *Technology Development* – DTRA develops, manages, coordinates and conducts research and development activities to enhance and enable WMD combat support, threat control, and threat reduction.
- *Threat Control* – The Agency shapes, manages and implements arms control and other non-treaty efforts to control, safeguard and eliminate nuclear, biological, chemical, conventional, and other special weapons.



- *Threat Reduction* – DTRA provides assistance to eligible states of the FSU in order to dismantle WMD and to reduce the threat of WMD proliferation.

Since its establishment, DTRA has developed a carefully crafted business framework, integrating Agency strategic planning and resource allocation efforts as required under the Government Performance and Results Act (GPRA). As part of this process, DTRA maps its capabilities to its Mission Essential Task List, which is derived from the Joint Chiefs of Staff Uniform Joint Task List. A schematic depicting DTRA’s business framework is highlighted below at Figure 2.

### *DTRA Strategic Planning Cycle*

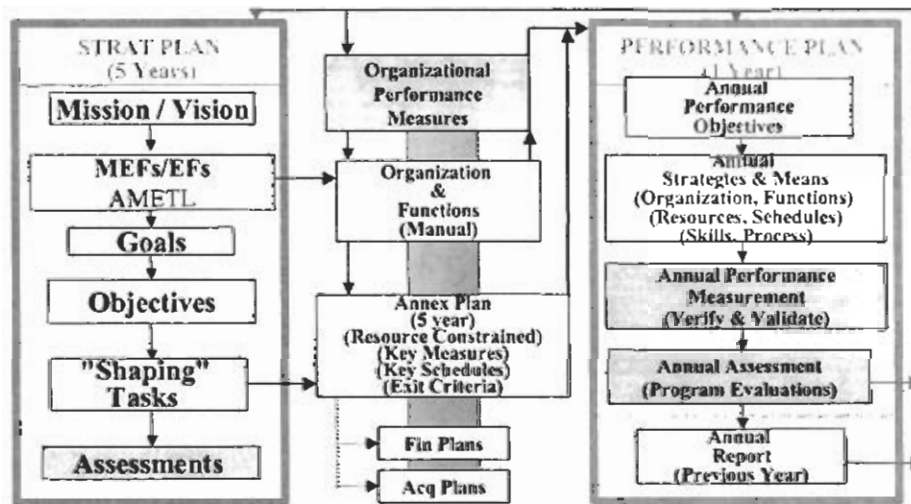


Figure 2

Assessments are an integral part of DTRA’s strategic planning process. Beginning in FY 2002, DTRA implemented a comprehensive internal performance assessment process to identify and adopt meaningful, quantitative measures of progress and accomplishments. DTRA prepared and published annual performance plans for all mission areas using a Balanced Scorecard approach. These Balanced Scorecards further amplify the objectives and tasks of the strategic plan and measure progress in achieving strategic results; the degree to which we are satisfying customer requirements; the effectiveness and efficiency of our internal processes; and how we are increasing the capabilities of our organization and our people through learning and growth. These resource-constrained action plans are designed to clearly articulate what DTRA expects to accomplish with its planned resources, as well as how performance will be measured. During FY 2003, DTRA continued to mature its process for identification and tracking of





meaningful performance metrics. DTRA's assessment process allows the Agency to make any necessary course corrections to more effectively carry out its essential national security missions. From an external validation perspective, two external DoD reviews - the Biennial Defense Review and the Combat Support Agency Review - provide an ongoing mechanism for continuing, independent assessment of DTRA's accomplishments.

The program overviews that follow provide insight into DTRA's mission programs and activities. These are the programs funded within DTRA's direct Total Obligation Authority (TOA).

## Combat Support

### Program Overview:

DTRA provides warfighting support to the Joint Chiefs of Staff, the Joint Staff, the Combatant Commands, and military services as they engage the threat and challenges posed to the United States, its forces and allies by WMD. DTRA supports the essential WMD response capabilities, functions, activities, and tasks necessary to sustain all elements of operating forces in theater at all levels of war. The combat support program provides operational and analytical support to DoD components and other U.S. and NATO organizations for nuclear and other WMD matters. DTRA conducts research, development, test and evaluation programs and provides technical support to DoD components and other organizations (as appropriate) in areas related to WMD and designated advanced weapons. Combat support activities include support to the Secretary of Defense, the Joint Chiefs of Staff, Combatant Commands, military departments, and DoD components for matters involving nuclear and designate special weapons. Direct technical support is provided to the theater commands for forecasting potential hazards and planning for the threat posed by recent activities including classified support to contingency planning. Support is also provided to OSD for programs that provide oversight for DoD nuclear matters. DTRA provides support to the Joint Staff with stockpile tracking and accounting and with conducting nuclear surety inspections. Additionally, the Defense Nuclear Weapons School provides training in nuclear and radiological hazards and response and other WMD response techniques.

Within the combat support mission area, program emphasis has expanded as a result of the September 11<sup>th</sup> attacks on the U.S. and subsequent promulgation of the Quadrennial Defense Review, the draft Global War on Terrorism (GWOT) Plan, the Nuclear Posture Review, and the draft Unified Command Plan. These documents set the priority for DTRA and provide long-term guidance to the DTRA combat support agency mission as it applies to direct support to Combatant Commands, Homeland Security, and general WMD/CBRNE defense requirements. The expanded combat support missions are dual-purpose, synergistic, and closely aligned with the GWOT, Homeland Security, and support to the Combatant Commanders. DTRA has planned for force protection



Joint Staff Integrated Vulnerability Assessment teams which are responsible for anti-terrorism and force protection programs at DoD installations worldwide to identify vulnerabilities and offer procedural and technical options to deter or mitigate the effects of a potential terrorist attack. In addition, the Balance Survivability Assessment teams conduct “all-threat” balanced vulnerability assessments of U.S./Allied systems to identify vulnerabilities and potential mitigation approaches for command, control and communication (C3I) systems, infrastructure, hardened underground facilities, and mobile systems. Significant investments have also been made in initiatives providing for enhanced OCONUS consequence management exercise support; enhanced consequence management advisory team (CMAT) support; and WMD training capabilities.

#### Performance Highlights:

##### Manage the strategic weapon stockpile:

- Maintained stockpile database operability at >97%; no unscheduled outages occurred.
- Accurate stockpile reports were submitted on time; within Presidential ceiling on 30 September 2003.
- DIAMONDS program FY 2003 milestones completed in accordance with program plans; fielding at CONUS Air Force sites to be completed 1<sup>st</sup> Qtr FY 2004.

##### Coordinate force protection for strategic forces and means:

- Conducted 87 Joint Staff Integrated Vulnerability Assessments (JSIVAs) in accordance with the J3 schedule.
- Met training and response coverage to 3 geographic Combatant Commands and Operation Iraqi Freedom in support of the NIMBLE ELDER program. Efforts are on track to establish a permanent CENTCOM Technical Support Group.

##### Support JCS/Combatant Command war planning efforts:

- Completed FY 2003 Joint Planning and Execution Community taskings within schedule.
- Reviewed/provided planning support to address critical Combatant Command requirements.

##### Establish education and training programs and allocated resources:

- Conducted comprehensive review of Defense Nuclear Weapons School program; identified necessary changes to course curriculum; completed and published FY04-05 training program and plan.
- Conducted 43 courses in FY 2002.

##### Coordinate NBC protection for strategic forces and means:

- Mighty Guardian VI/VII force-on-force exercises on track in accordance with exercise schedules. Conducted 8 contingency security surveys.



Coordinate consequence management :

- Established enhanced Consequence Management Advisory Team (CMAT) capability. Staffed, equipped and trained 7 CMATs with augmentation, 4 CMATs without augmentation.
- Staffed, equipped and trained the Operations Center for enhanced 24/7 Reachback.
- Established strategic partnership with NORTHCOM. Memorandum of Understanding signed; efforts to establish supporting agreements and Agency Priority List underway.

Conduct research and development, safeguard national strategic capabilities, and coordinate nuclear surety:

- Domestic Nuclear Event Attribution (DNEA) program FY 2003 objectives/milestones competed (concept of operation, national asset inventory, and table top exercise).
- Successfully conducted 37 Balanced Survivability Assessments (BSAs) in accordance with J3 and OSD/C3I schedules.
- Conducted 13 Defense Nuclear Surety Inspections on nuclear capable units.

## Technology Development

Program Overview:

DTRA's technology development program provides tools and technical reachback capabilities in direct support of the Agency's combat support mission. It focuses on reducing WMD threats by conducting innovative research and development to support the nation's WMD-related counterforce, consequence management and arms control activities. Within this program area, DTRA focuses on counterproliferation technology, systems applications, operational applications, nuclear technologies, combating terrorism technologies, militarily critical technologies, and a robust testing program.

The Counterproliferation Technology Program provides technologies called for by the Combatant Commanders to defeat WMD targets, enhance planning, minimize collateral hazards, develop highly energetic materials for enhanced conventional weapons capabilities against chemical and biological agents, and to provide reachback technical support to warfighters.

The Systems Application Program, based on Combatant Command needs, concentrates on hard targets and chemical/biological agent defeat both with standoff weapons and direct support to special operations forces. The program demonstrates and delivers decision support tools to planners and operators, enhances threat defeat technologies, and develops realistic test environments that stress the limits of operational weapons and tactics.



The Operational Applications Program develops, delivers, and applies products and services to meet threats and user desired capabilities with state-of-the-art science and engineering, advanced analyses, modeling, simulation and networking technologies, and precision laboratory-scale and field-testing capabilities. Of particular interest are applications associated with WMD, associated effective targeting strategies, the general prediction of the collateral effects associated with release of WMD agents, and the enhancement of operational support technology for the warfighter and other users. The program exploits advances in weapons, tactics, and computer technology to produce and deliver high-fidelity assessment tools to support the warfighters' desired capabilities for weaponeering, target planning, and collateral effects assessments, and for assessing battle damage.

The Nuclear Technology Program supports strategic deterrence of residual and emerging threats and the requirements of high priority national programs. National Missile Defense requirements drive DTRA's emphasis on sustaining robust radiation hardened microelectronics production capabilities to support the technologies associated with space-based systems. In addition, simulation technologies are coupled with numerical modeling to modernize our approach to survivability design, testing, and validation.

The Combating Terrorism Technology Program develops and demonstrates key operational technologies to reduce terrorist threats and their effects by addressing the "prevent-protect-respond" spectrum that ranges from deterrence to retaliation.

The Test and Technology Support Program manages testing activities and provides technical support for the overall Technology Development Program.

The Militarily Critical Technology Program (MCTP) develops the Militarily Critical Technology List, integrates critical items into export control lists, reviews military critical goods and technologies, and considers worldwide technology capabilities.

#### Performance Highlights:

Ensure nuclear weapons effects technology program addresses current needs:

- Radiation Hardened Microelectronic Advanced Technology Demonstration program
- Completed circuit test designs.
- Capital equipment (CAPEX) purchased within budget and is being qualified.
- Delivered new version MIDAS toolset.
- Completed testable hardware toolkit and MIL-HDBK 423.





Continue development of tools to assess WMD threats and effects:

- Completed draft modeling and simulation master plan.
- Defense Collaboration Tool Suite in use as reachback capability for Capital Area Defense Information Initiative (CADII).
- Delivered ITPTS v2.0 planning and assessment tool.

Deliver capabilities to support the identification, characterization and defeat of WMD threats:

- Completed blast door defeat test.
- Completed 1 of 2 sequential optimized dual deliveries.
- Completed JDAM delivered Mk-84 portal extension defeat.
- Completed preliminary design of full-scale agent defeat weapon and conducted static test of weapon.
- Developed geology template for six countries; completed over 1500 3-D underground target models.

## Threat Control

Program Overview:

The U.S. seeks to reduce the threat from WMD in a number of ways, particularly through treaty and non-treaty efforts to control, safeguard and eliminate existing weapons. As the focal point for implementing U.S. treaty inspection, escort, and monitoring activities, DTRA executes current arms control treaties and agreements and prepares for imminent or potential agreements. Moreover, through the implementation of both conventional and strategic arms control agreements, and experience gained therefrom, DTRA is increasingly involved in shaping the international security environment through on-site activities in post-conflict stabilization operations. Additionally, as monitors for force withdrawals from regional trouble spots, DTRA inspectors provide to the Secretary of Defense first-hand evidence that international commitments are fulfilled. Through the verifiable reduction of the world's stockpiles of nuclear, chemical, and conventional weapons, as well as the training and equipping of law enforcement and border guard personnel in the former Soviet Union, Eastern Europe and Baltic countries, U.S. security interests are directly enhanced by the DTRA mission.

Performance Highlights:

Prepare for and accomplish arms control agreements and initiatives:

- Chemical Weapons Convention (CWC)
  - Organized and conducted a rehearsal of CWC Challenge Inspection procedures with a Table Top Exercise hosted by the U.S. Navy at China Lake in Jan 2003.



- Participants included the Joint Staff, several OSD offices, DTRA, and the Services.
- Stood up the Umatilla Chemical Agent Disposal Facility Branch in Jan 2003.
- Stood up the Aberdeen Chemical Agent Disposal Facility Branch in Feb 2003.
- Participated in the first ever Sampling Exercise with the OPCW in Feb 2003.
- Open Skies Treaty:
  - Completed the first six U.S. Open Skies Treaty flights over Russia.
- Strategic Arms Reduction Treaty (START)
  - Continued to support planning efforts for SS-24 and SS-25 ICBM elimination at Bryansk and Votkinsk respectively. Started the elimination inspections of the SS-24 rail launcher and launch associated rail cars.
  - Continued to support development of escort procedures dealing with modified Minuteman II launchers at Vandenberg AFB, CA used for testing of National Missile Defense interceptors.
- Military Relocation Program (MRP) - Moldova
  - Supported the MRP-Moldova initiative of the Organization for Security and Cooperation in Europe to assist the Russian Federation in fulfilling its Istanbul Commitment to withdraw its forces from Moldova. The current operation involves the elimination of 42,000 tons of conventional munitions from the Transdnestrrian region of Moldova.
- DoD/FBI/U.S. Customs Service (USCS) International Counterproliferation Program (ICP)
  - Conducted 52 missions to a total of 17 countries, providing training to law enforcement, border security and customs officials designed to prevent and counter the proliferation of WMD and related materials across their territory and through their borders.
  - Over \$1.5M in equipment for WMD detection, interdiction and investigation was delivered.
- Operation Iraqi Freedom
  - Deployed seven Site Assessment Teams (SATs) to conduct Sensitive Site Exploitation of possible WMD facilities in Iraq.
  - Established Weapons Elimination Directorate to execute disablement and elimination of WMD in Iraq.
  - Task Force DTRA assembled and operational in the Baghdad area (Camp Slayer).



- Nuclear Disablement Team fulfilled the U.S. escort requirements for members of the International Atomic Energy Agency (IAEA) Area C Nuclear Non-Proliferation Treaty mission.
- Successfully inspected over 216 sensitive sites including covert WMD facilities, mass graves, and possible POW locations at CENTCOM direction.
- Began radiological source consolidation mission.
- Assessed and upgraded physical security at Bunker B.
- Collected approximately 150 radiological sources.

## Threat Reduction

### Program Overview:

With legislation passed in 1991, Senators Nunn and Lugar established the farsighted Cooperative Threat Reduction (CTR) Program to respond to the threat of proliferation of the FSU arsenal of nuclear and chemical weapons, and biological weapons materials and knowledge on the territories of several New Independent States (NIS). The legislation designated the DoD as the executive agent for what has become the CTR program. The CTR program provides assistance to eligible states of the FSU in order to dismantle WMD and to reduce the threat of WMD proliferation. The program objectives are to dismantle FSU WMD and associated infrastructure; to consolidate and secure FSU WMD and related technology and materials; to increase transparency and encourage higher standards of conduct; and to support defense and military cooperation with the objective of preventing proliferation. The CTR program, along with other arms control and threat reduction initiatives, helps maintain U.S. leadership in arms control and non-proliferation initiatives, an essential element of our national security strategy.

### Performance Highlights:

#### Reduce WMD systems of countries of the former Soviet Union:

- Eliminated 271 missiles and 54 launchers.
- Chemical Weapons Destruction Facility design at 82% completion.
- Eliminated proliferation infrastructure at 2 FSU sites.

#### Reduce the opportunities for weapons proliferation:

- Fielded suites of physical security equipment at 2.8 "equivalent sites".
- Construction of a Fissile Material Storage Facility to provide safe and secure storage for fissile materials at 99% completion; transparency at 51% completion.
- Conducted 17 biological weapons collaborative research projects to improve standards/preempt proliferation.



## **FINANCIAL CONDITION:**

The financial statements have been prepared to report the financial position and results of operations for the Department, 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 the entity, 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, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address those limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards.

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

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years 2003 and beyond, and encouraged early implementation.

### **Analysis of DTRA's Financial Statements**

As of September 30, 2003, and 2002, the financial condition of DTRA was sound with sufficient funds to meet program needs and adequate control of these funds in place to ensure effective financial management.

#### **Financial Statement Highlights**

For FY 2003, DTRA's financial statements, produced by the Defense Finance and Accounting Service (DFAS), include the Chemical/Biological Program and summarize the financial activity and financial position of the agency. The audited financial statements are not yet available and will include financial adjustments to separate the Chemical/Biological Program from the DTRA financial data. Analysis of the principal statements follows.





### Analysis of the Balance Sheet

DTRA's net assets were approximately \$3.57 billion as of September 30, 2003. This is an increase of \$690 million from the end of FY 2002, and is mainly due to an increase in Fund Balance with Treasury. The assets reported in DTRA's Balance Sheet are summarized in the accompanying table.

ASSET SUMMARY (in thousands)		
	FY 2003	FY 2002
Fund Balance with Treasury	\$3,421,534	\$2,733,727
Accounts Receivable, Net	58,163	50,086
Property, Plant & Equipment	53,958	63,430
Other	35,735	32,496
<b>Total Assets</b>	<b>\$3,569,390</b>	<b>\$2,879,738</b>

The Fund Balance with Treasury represents the DTRA's largest asset of \$3.4 billion as of September 30, 2003, an increase of \$688 million from the FY 2002 year end balance. This balance accounts for approximately 96 percent of total assets. Fund Balance with Treasury increased as a result of substantive increased appropriations in support of the Iraq Weapon Elimination and Chemical/Biological Program.

The value of Property, Plant, and Equipment is \$53.9 million, representing 1.5 percent of total assets. The majority of the balance is comprised of recording PP&E in the hands of contractors. The \$10 million decrease is applicable to a FY 2002 audit adjustment for PP&E in the hands of contractors where the auditor adjusted for items not meeting the DoD capitalization threshold of \$100 thousand and above.

DTRA's liabilities were \$292 million as of September 30, 2003. The accompanying table shows an increase in total liabilities of \$196 million from the FY 2002 year end balance of \$96 million. This increase is attributable to an increase in Accounts Payable, mainly in the public accounts payable. The accounts payable-public increased at the suballotment level due to large acquisitions by the Marine Corps in support of the Chemical/Biological Program. Also, as reported in the financial statements, DTRA's Accounts Payable were adjusted (increased) in accordance with normal operating procedures for eliminating adjustment processes as outlined in the DoD Financial Management Regulation for those agencies not having a waiver as an exception to the process.



LIABILITIES SUMMARY (in thousands)		
	FY 2003	FY 2002
Accounts Payable	\$269,545	\$73,224
Military Salaries and Other Employment Related	2,052	2,409
Environmental Liabilities	1,536	1,896
Other Liabilities	19,192	18,425
<b>Total Liabilities</b>	<b>\$292,325</b>	<b>\$95,954</b>

Other liabilities included \$8.5 million in Accounts Payable from Cancelled Appropriations (attributable to the Chemical/Biological Program), \$6 million for Unfunded Leave, an abnormal balance of (\$4.9) million in Advances from Others, \$3.3 million for Accrued Funded Payroll and Leave, and other smaller items.

Unexpended appropriations is the amount of authority granted by Congress that has not been expended, and includes undelivered orders and unobligated balances. The \$690 thousand decrease in total unexpended appropriations, or -18 percent, is attributable to agency level adjustments received for correction of the Fiscal Year 2003 beginning balance for unexpended obligations. Research determined adjustments to unexpended obligations were overstated. The discrepancy was subsequently corrected in the 4<sup>th</sup> quarter, FY 2003, through the processing of beginning balance adjustments.

NET POSITION (in thousands)		
	FY 2003	FY 2002
Unexpended Appropriations	\$3,230,542	\$3,920,324
Cumulative Results of Operations	46,523	(1,136,540)
<b>Total Net Position</b>	<b>\$3,277,065</b>	<b>\$2,783,784</b>

#### Analysis of the Statement of Net Cost

The Statement of Net Cost presents the net cost of the programs in DTRA's statements.

NET COST OF OPERATIONS (in thousands)		
	FY 2003	FY 2002
Defense Special Weapons Agency	8,885	39,221
Defense Technology Security Administration	48.0	3,411
<b>Defense Threat Reduction Agency</b>	<b>1,166,173</b>	<b>1,081,983</b>
<b>On Site Inspection Agency</b>	<b>2,321</b>	<b>1,691</b>
Chemical/Biological Defense Program	1,084,327	860,101
<b>Total Program Costs</b>	<b>\$2,261,754</b>	<b>\$1,986,407</b>

Under current accounting standards, costs of operations must be recognized in the financial statements even though they are not covered by appropriations received. The Statement of Net includes the cost of civilian retirement, health, and life insurance. The cost of depreciation is also included.



### Analysis of the Statement of Changes in Net Position

The Statement of Changes in Net Position shows the items that cause net position to change, and the net position at the end of the period. DTRA's net position improved by \$493 million from FY 2002 to FY 2003. The increase in Cumulative Results of Operations and the decrease in unexpended appropriations occurred primarily because of adjustments to beginning balances. These adjustments were to correct adjustments made in prior years.

### Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It presents the relationship between budget authority and budget outlays, and reconciles obligations to total outlays. For FY 2003, DTRA had budgetary resources available of \$3.5 billion. The majority of this increase was derived from budget authority received.

### Analysis of the Statement of Financing

The Statement of Financing is designed to provide the bridge between accrual-based (financial accounting) information in the Statement of Net Cost and obligation-based (budgetary accounting) information in the Statement of Budgetary Resources by reporting the differences and reconciling the two statements. This reconciliation ensures that the proprietary and budgetary accounts in the financial management system are in balance. The Statement of Financing takes budgetary obligations of \$2.6 billion and reconciles to the net cost of operations of \$2.2 billion by deducting non-budgetary resources, costs not requiring resources, and financing sources yet to be provided.

## **SYSTEMS, CONROLS, AND LEGAL COMPLIANCE:**

Presently, DTRA's accounting office performs agency level accounting functions for FY 1999 and subsequent appropriations. Beginning in FY 1999, fiscal station number 49012 was established for DTRA's accounting office. DTRA also operates a Treasury disbursing account under Disbursing Station Symbol Number 6362.

The accounting support office within the Defense Agency Financial Services at the Center for Sustaining Forces (Defense Finance and Accounting Service-Indianapolis) performs agency level accounting functions for the Defense Technology Security Administration and Defense Special Weapons Agency for FY 1998 and prior appropriations.

Programming Budgeting and Accounting System (PBAS) is the system utilized for funding distribution. DTRA receives its direct program funding from the



Office of the Secretary of Defense. Additional funding is received from a variety of other external sources. The Agency certifies its own funds, allocating those funds through the Program Budgeting and Accounting System (PBAS).

The Centralized Accounting and Financial Resource Management System (CAFRMS) is the on-line, interactive resource management system used by DTRA. CAFRMS provides control of all appropriated funds including reimbursable and direct citation funds issued to the Agency. CAFRMS uses a transaction based General Ledger for both Proprietary and Budgetary accounts. The real-time data in CAFRMS is used to create the financial information that is used by DDRS at DFAS-IN in preparing DTRA's financial statements. In addition to routine accounting functions, CAFRMS is also utilized to support other financial management information needs.

In addition to CAFRMS, various feeder systems are utilized to support selected financial operations. These include the following:

- The Deployable Disbursing System (DDS) – currently used for disbursing transactions.
- The Computerized Accounts Payable System (DOPS) – used for processing vendor payments.
- The integrated Automated Travel System (IATS) – used for processing travel payments.
- The Defense Civilian Pay System (DCPS) – used for processing civilian pay.
- The Defense Property Accountability System (DPAS) – used for property accountability.

## **AUDIT RESULTS:**

### Expected Audit Results

In FY 2002, DTRA received an unqualified opinion on its financial statements, exclusive of financial data relative to the Chemical/Biological Program. DTRA expects to receive an unqualified audit opinion on its FY 2003 financial statements. An assessment is being performed on the Chemical/Biological Program financial statements for FY 2003.

### Basis for Expected Audit Result

The audit result of FY 2003 is expected to be favorable for several significant reasons. First, for FY 2003, DTRA implemented monthly trial balance reviews and coordinated the results with DFAS, who provided the necessary assistance in making monthly adjustments and corrections. Second, DTRA performed analyses of system errors and made the proper manual processing adjustments. Third, DTRA continued to reconcile the budgetary accounts to the proprietary accounts.





**TAB B**

**PRINCIPAL STATEMENTS**



Department of Defense  
 Defense Threat Reduction Agency  
**CONSOLIDATED BALANCE SHEET**  
 As of September 30, 2003 and 2002  
 (\$ in Thousands)

	2003 Consolidated	2002 Consolidated
<b>1. ASSETS (Note 2)</b>		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)		
a. Entity	\$ 3,421,534	\$ 2,733,726
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)	55,269	46,864
4. Other Assets (Note 6)	6	126
5. Total Intragovernmental Assets	\$ 3,476,809	\$ 2,780,716
B. Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0
C. Accounts Receivable (Note 5)	2,894	3,222
D. Loans Receivable (Note 8)	0	0
E. Inventory and Related Property (Note 9)	0	0
F. General Property, Plant and Equipment (Note 10)	53,958	63,430
G. Investments (Note 4)	0	0
H. Other Assets (Note 6)	35,729	32,370
<b>2. TOTAL ASSETS</b>	<b>\$ 3,569,390</b>	<b>\$ 2,879,738</b>
<b>3. LIABILITIES (Note 11)</b>		
A. Intragovernmental:		
1. Accounts Payable (Note 12)	\$ 29,719	\$ 42,053
2. Debt (Note 13)	0	0
3. Environmental Liabilities (Note 14)	0	0
4. Other Liabilities (Note 15 & Note 16)	1,373	826
5. Total Intragovernmental Liabilities	\$ 31,092	\$ 42,879
B. Accounts Payable (Note 12)	\$ 239,826	\$ 31,171
C. Military Retirement Benefits and Other Employment- Actuarial Liabilities (Note 17)	2,052	2,409
D. Environmental Liabilities (Note 14)	1,536	1,896
E. Loan Guarantee Liability (Note 8)	0	0
F. Other Liabilities (Note 15 & Note 16)	17,819	17,599
G. Debt Held by Public (Note 13)	0	0
<b>4. TOTAL LIABILITIES</b>	<b>\$ 292,325</b>	<b>\$ 95,954</b>
<b>5. NET POSITION</b>		
A. Unexpended Appropriations (Note 18)	\$ 3,230,542	\$ 3,920,324
B. Cumulative Results of Operations	46,523	(1,136,540)
<b>6. TOTAL NET POSITION</b>	<b>\$ 3,277,065</b>	<b>\$ 2,783,784</b>
<b>7. TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 3,569,390</b>	<b>\$ 2,879,738</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	<b>2003 Consolidated</b>	<b>2002 Consolidated</b>
<b>1. Program Costs</b>		
A. Intragovernmental Gross Costs	\$ 255,145	\$ 435,404
B. (Less: Intragovernmental Earned Revenue)	(17,176)	(24,346)
C. Intragovernmental Net Costs	\$ 237,969	\$ 411,058
D. Gross Costs With the Public	2,023,784	1,575,639
E. (Less: Earned Revenue From the Public)	1	(290)
F. Net Costs With the Public	<b>\$ 2,023,785</b>	<b>\$ 1,575,349</b>
G. Total Net Cost	<b>\$ 2,261,754</b>	<b>\$ 1,986,407</b>
<b>2. Cost Not Assigned to Programs</b>	0	0
<b>3. (Less: Earned Revenue Not Attributable to Programs)</b>	0	0
<b>4. Net Cost of Operations</b>	<b>\$ 2,261,754</b>	<b>\$ 1,986,407</b>



Department of Defense  
 Defense Threat Reduction Agency  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

	2003 Consolidated	2002 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
1. Beginning Balances	\$ (1,136,540)	\$ (995,865)
2. Prior period adjustments (+/-)	0	0
3. Beginning Balances, as adjusted	<u>(1,136,540)</u>	<u>(995,865)</u>
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	3,236,177	1,872,475
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 (+/-)	203,332	(107,310)
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	5,307	80,567
5.D. Other (+/-)	0	0
6. Total Financing Sources	<u>3,444,816</u>	<u>1,845,732</u>
7. Net Cost of Operations (+/-)	2,261,754	1,986,407
8. Ending Balances	<u>\$ 46,522</u>	<u>\$ (1,136,540)</u>





**Department of Defense**  
**Defense Threat Reduction Agency**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Consolidated	2002 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>1. Beginning Balances</b>	\$ 3,920,324	\$ 3,663,625
<b>2. Prior period adjustments (+/-)</b>	0	0
<b>3. Beginning Balances, as adjusted</b>	<u>3,920,324</u>	<u>3,663,625</u>
<b>4. Budgetary Financing Sources:</b>		
4.A. Appropriations received	3,043,099	2,084,015
4.B. Appropriations transferred-in/out (+/-)	(437,917)	(27)
4.C. Other adjustments (rescissions, etc) (+/-)	(58,788)	45,187
4.D. Appropriations used	(3,236,177)	(1,872,475)
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
<b>5. Other Financing Sources:</b>		
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
<b>6. Total Financing Sources</b>	<u>(689,783)</u>	<u>256,700</u>
<b>7. Net Cost of Operations (+/-)</b>	0	0
<b>8. Ending Balances</b>	<u>\$ 3,230,541</u>	<u>\$ 3,920,325</u>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 3,043,099	\$ 2,121,154
1b. Borrowing authority	0	0
1c. Contract authority	0	0
1d. Net transfers (+/-)	(380,600)	0
1e. Other	0	0
2. Unobligated balance:		
2a. Beginning of period	709,806	858,768
2b. Net transfers, actual (+/-)	(57,317)	(57,149)
2c. Anticipated Transfers balances	0	0
3. Spending authority from offsetting collections:		
3a. Earned	0	0
1. Collected	9,373	6,364
2. Receivable from Federal sources	7,074	18,841
3b. Change in unfilled customer orders	0	0
1. Advance received	0	4,911
2. Without advance from Federal sources	22,637	(5,124)
3c. Anticipated for the rest of year, without advances	0	0
3d. Transfers from trust funds	0	0
3e. Subtotal	39,084	24,992
4. Recoveries of prior year obligations	180,869	193,086
5. Temporarily not available pursuant to Public Law	0	0
6. Permanently not available	(58,777)	58,876
<b>7. Total Budgetary Resources</b>	<b>\$ 3,476,164</b>	<b>\$ 3,199,727</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>		
8. Obligations incurred:		
8a. Direct	\$ 2,622,337	\$ 2,471,124
8b. Reimbursable	35,526	18,800
8c. Subtotal	2,657,863	2,489,924
9. Unobligated balance:		
9a. Apportioned	781,934	671,152
9b. Exempt from apportionment	0	0
9c. Other available	1	(1)
10. Unobligated Balances Not Available	36,366	38,652
<b>11. Total, Status of Budgetary Resources</b>	<b>\$ 3,476,164</b>	<b>\$ 3,199,727</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
12. Obligated Balance, Net - beginning of period	\$ 2,238,322	\$ 1,918,705
13. Obligated Balance transferred, net (+/-)	0	0
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	(57,123)	(50,049)
14b. Unfilled customer order from Federal sources	(46,432)	(23,795)
14c. Undelivered orders	2,455,013	2,252,250
14d. Accounts payable	261,725	79,883
15. Outlays:		
15a. Disbursements	2,072,423	1,943,535
15b. Collections	(9,373)	(11,275)
15c. Subtotal	2,063,050	1,932,260
16. Less: Offsetting receipts	0	0
<b>17. Net Outlays</b>	<b>\$ 2,063,050</b>	<b>\$ 1,932,260</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>NONBUDGETARY FINANCING ACCOUNTS</b>		
<b>BUDGETARY RESOURCES</b>		
1. Budget Authority:		
1a. Appropriations received	\$ 0	\$ 0
1b. Borrowing authority	0	0
1c. Contract authority	0	0
1d. Net transfers (+/-)	0	0
1e. Other	0	0
2. Unobligated balance:		
2a. Beginning of period	0	0
2b. Net transfers, actual (+/-)	0	0
2c. Anticipated Transfers balances	0	0
3. Spending authority from offsetting collections:		
3a. Earned	0	0
1. Collected	0	0
2. Receivable from Federal sources	0	0
3b. Change in unfiled customer orders	0	0
1. Advance received	0	0
2. Without advance from Federal sources	0	0
3c. Anticipated for the rest of year, without advances	0	0
3d. Transfers from trust funds	0	0
3e. Subtotal	0	0
4. Recoveries of prior year obligations	0	0
5. Temporarily not available pursuant to Public Law	0	0
6. Permanently not available	0	0
<b>7. Total Budgetary Resources</b>	<b>\$ 0</b>	<b>\$ 0</b>





**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF FINANCING**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
1. Obligations incurred	\$ 2,657,863	\$ 2,489,922
2. Less: Spending authority from offsetting collections and recoveries (-)	(219,954)	(218,079)
3. Obligations net of offsetting collections and recoveries	2,437,909	2,271,843
4. Less: Offsetting receipts (-)	0	0
5. Net obligations	2,437,909	2,271,843
Other Resources		
6. Donations and forfeitures of property	0	0
7. Transfers in/out without reimbursement (+/-)	0	0
8. Imputed financing from costs absorbed by others	5,307	80,567
9. Other (+/-)	0	0
10. Net other resources used to finance activities	5,307	80,567
<b>11. Total resources used to finance activities</b>	<b>2,443,216</b>	<b>2,352,410</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
12a. Undelivered Orders (-)	(222,613)	(400,673)
12b. Unfilled Customer Orders	22,637	(213)
13. Resources that fund expenses recognized in prior periods	(2,264)	(5,129)
14. Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
15. Resources that finance the acquisition of assets	(6,365)	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	0	0
16b. Other (+/-)	0	0
<b>17. Total resources used to finance items not part of the net cost of operations</b>	<b>(208,605)</b>	<b>(406,015)</b>
<b>18. Total resources used to finance the net cost of</b>	<b>2,234,611</b>	<b>1,946,395</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>		
8. Obligations incurred:		
8a. Direct	\$ 0	\$ 0
8b. Reimbursable	0	0
8c. Subtotal	0	0
9. Unobligated balance:		
9a. Apportioned	0	0
9b. Exempt from apportionment	0	0
9c. Other available	0	0
10. Unobligated Balances Not Available	0	0
<b>11. Total, Status of Budgetary Resources</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
12. Obligated Balance, Net - beginning of period	\$ 0	\$ 0
13. Obligated Balance transferred, net (+/-)	0	0
14. Obligated Balance, Net - end of period:		
14a. Accounts receivable	0	0
14b. Unfilled customer order from Federal sources	0	0
14c. Undelivered orders	0	0
14d. Accounts payable	0	0
15. Outlays:		
15a. Disbursements	0	0
15b. Collections	0	0
15c. Subtotal	0	0
16. Less: Offsetting receipts	0	0
<b>17. Net Outlays</b>	<b>\$ 0</b>	<b>\$ 0</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINED STATEMENT OF FINANCING**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	2003 Combined	2002 Combined
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future		
19. Increase in annual leave liability	0	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 the public	0	0
23. Other (+/-)	8,571	534
24. Total components of Net Cost of Operations that will require or generate resources in future periods	8,571	534
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	(3,841)	2,997
26. Revaluation of assets or liabilities (+/-)	20,660	0
27. Other (+/-)	1,750	36,482
28. Total components of Net Cost of Operations that will not require or generate resources	18,569	39,479
<b>29. Total components of net cost of operations that will not require or generate resources in the current</b>	<b>27,140</b>	<b>40,013</b>
<b>30. Net Cost of Operations</b>	<b>2,261,751</b>	<b>1,986,408</b>



**TAB C**

**NOTES 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 Defense Threat Reduction Agency (DTRA), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DTRA in accordance with the "Department of Defense Financial Management Regulation" ("DoDFMR"), Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and to the extent possible Federal generally accepted accounting principles (GAAP). The accompanying financial statements account for all resources for which the DTRA 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. The DTRA's financial statements are in addition to the financial reports also prepared by the DTRA pursuant to OMB directives that are used to monitor and control the DTRA's use of budgetary resources.

The DTRA 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. Reported values and information for the DTRA's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the DTRA cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The DTRA continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable notes.

### **1.B. Mission of the Reporting Entity**

The DTRA's mission is to reduce the threat to the United States and its allies from nuclear, biological, chemical (NBC), conventional and special weapons through the execution of technological security activities, cooperative threat reduction (CTR) programs, arms control treaty monitoring and on-site inspection, force protection, NBC defense, and counter proliferation (CP); to support the United States nuclear deterrent; and to provide technical support on weapons of mass destruction (WMD) matters to the DoD Components.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations.



Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

#### **1.C. Appropriations and Funds**

The DTRA's appropriations and funds are in the general fund account. This account is used to fund and report how the resources have been used in the course of executing the DTRA's mission.

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

#### **1.D. Basis of Accounting**

The DTRA identifies programs based upon the major appropriation groups provided by Congress and generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2003, the DTRA's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the DTRA's financial and non-financial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as is required by Federal GAAP. The DTRA has undertaken efforts to determine the actions required to bring its financial and non-financial feeder systems and processes into compliance with all elements Federal GAAP. Until such time as all of the DTRA's financial and non-financial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DTRA's financial data will be based on budgetary transactions (obligations, disbursements, and collections), transactions from non-financial feeder systems, and adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required.

#### **1.E. Revenues and Other Financing Sources**

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The DTRA recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

The DTRA does not include non-monetary support provided by U.S. Allies for common defense and mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal



defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in a port. DoD is reviewing these types of financing and cost reductions in order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

#### **1.F. Recognition of Expenses**

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the DTRA's financial and non-financial 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. Expenditures for capital and other long-term assets are not recognized as expenses in the DTRA's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

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 Intra-governmental Activities**

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

The DTRA'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. The DTRA's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

The DTRA's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while the 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 as do certain CSRS employees. The DTRA funds a portion of the civilian pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The DTRA recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. Under the provisions of the DoD Financial Management Regulation, Volume 6B, Chapter 13, the DTRA obtained a waiver, whereby, the Seller Side Revenues were adjusted to agree with the DTRA's Expenses (Buyer-Side). For FY 2001 through second quarter FY 2003, the DTRA provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices and required the adjustment of the buyer-side records to recognize unrecorded costs and accounts payable. The DTRA's operating expenses were not adjusted based on a comparison between the DTRA's accounts payable and the DoD summary level seller accounts receivables. For the third quarter FY 2003, the DTRA was not granted a waiver as an exception to normal business practices for eliminations; therefore, Seller Side Revenues were not adjusted to agree with the DTRA's Expenses. For this reporting period, elimination adjustments were recorded to the DTRA accounts in accordance with normal operating provisions as outlined in the DoD Financial Management Regulation. In addition, the DTRA implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Fiduciary Transactions Accounting Guide" for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employee Compensation Act transactions with the Department of Labor, and benefit program transactions with the OPM.

#### **1.H. Transactions with Foreign Governments and International Organizations**

Each year, the DoD Components dispense 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 DoD has authority to sell defense articles and services to foreign countries, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

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

The DTRA'S financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the Defense Finance and Accounting Service (DFAS) and Military Services and the U. S. 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 U.S. Treasury on check issues, interagency transfers and deposits.

In addition, the DFAS centers and the USACE Finance Center submit reports to Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of the Treasury then records this information to the appropriation Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Any differences between the DTRA's recorded balance in the FBWT account and Treasury's FBWT are reconciled. Material Disclosures are provided at note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

#### **1.J. Foreign Currency**

The DTRA conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operation and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment 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, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from another federal agency. Claims against another federal agency are to be resolved between the agencies. If the claim cannot be resolved by the agencies involved, it should be referred to the General Accounting Office. Material disclosures are provided at Note 5.

#### **1.L. Loans Receivable. As Applicable.**

Not Applicable

#### **1.M. Inventories and Related Property**

Not Applicable

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

Not Applicable



## **1.O. General Property, Plant and Equipment**

General property, plant, and equipment (PP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of 2 or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E should be capitalized. The Department contracted with two certified public accounting (CPA) firms to obtain an independent assessment of the validity of the General PP&E capitalization threshold. At the conclusion of the studies, both CPA firms recommended that the Department retain its current capitalization threshold of \$100,000. All General PP&E, other than land, is depreciated on a straight-line basis.

When it is in the best interest of the government, the DTRA provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the DTRA, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E should be included in the value of General PP&E reported on the DTRA's Balance Sheet. The Department recently completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to the Department's financial statements. Regardless, the Department is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the DTRA currently reports only government property in the possession of contractors that exceeds the DoD capitalization threshold.

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

Material disclosures are provided at Note 10.

## **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 expenditures and expenses when the related goods and services are received.



#### **1.Q. Leases**

DTRA has no current capitalized lease costs.

#### **1.R. Other Assets**

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

In addition, based on the provision of the Federal Acquisition Regulations, the DTRA makes financing payments under fixed price contracts that are not based on a percentage of completion. DoD 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." DoD 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 the DTRA. 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 when 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.

The DTRA loss contingencies could arise as a result of pending or threatened litigation, property or environmental damages, and contract disputes.

#### **1.T. Accrued Leave**

Civilian annual leave is accrued as earned and the accrued amounts are reduced as leave is taken. The balances for annual leave at the end of the quarterly reporting period reflect current pay rates for the leave that is earned but not taken. Sick 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 for which legal liabilities for payments have been incurred.

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

#### **1.V. Treaties for Use of Foreign Bases**

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. 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 DoD. 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**

In FY 2001, the Defense Threat Reduction Agency began presenting 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 and results of operations for the 4th Quarter, FY 2003. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater than 10 percent between the Fiscal Year 2002 and Fiscal Year 2003 reporting periods, are explained within the notes to the Financial Statements.

#### **1.X. Unexpended Obligations**

The DTRA 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/services have yet to be delivered.





## Note 2. Nonentity and Entity Assets

As of September 30	2003		2002 Nonentity Assets	
	Nonentity	Entity	Total	
<b>(Amounts in thousands)</b>				
<b>1. Intra-governmental Assets:</b>				
A. Fund Balance with Treasury	\$ 0	\$ 3,421,534	\$ 3,421,534	\$ 0
B. Investments	0	0	0	0
C. Accounts Receivable	4	55,267	55,271	0
D. Other Assets	0	6	6	0
E. Total Intra-governmental Assets	\$ 4	\$ 3,476,807	\$ 3,476,811	\$ 0
<b>2. Non-Federal Assets:</b>				
A. Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
B. Accounts Receivable	1,249	1,644	2,893	1,579
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	0	0	0
E. General Property, Plant and Equipment	0	53,958	53,958	0
F. Investments	0	0	0	0
G. Other Assets	0	35,728	35,728	0
H. Total Non-Federal Assets	\$ 1,249	\$ 91,330	\$ 92,579	\$ 1,579
<b>3. Total Assets:</b>	\$ 1,253	\$ 3,568,137	\$ 3,569,390	\$ 1,579
<b>4. Other Information:</b>				
<b>Definition</b>				

Asset accounts are categorized either as entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or when management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity, but are not available for use in the operations of the entity.

### Fluctuations and/or Abnormalities



Fluctuations

Fluctuations are not required for Note 2 as all related fluctuations are addressed in other notes.

Abnormalities

Line 1.A. Fund Balance with Treasury includes an abnormal balance submitted for the Defense Special Weapons Agency in the amount of \$1,546 thousand. The abnormality is primarily attributed to uncollected reimbursements receivable for reimbursable orders for which disbursements have been made. Corrective action (collections) by the Defense Finance and Accounting Service (DFAS) has been initiated.

**Composition of Non-Entity Assets**

Intragovernmental Assets (In thousands)

Line 1.C. Accounts Receivable \$ 4

Non-Federal Assets (In thousands)

Line 2.B. Accounts Receivable \$ 1,249

The Department of the Army (Department) reclassified accounts receivable from entity to non-entity. At year-end, outstanding accounts receivable in canceling appropriations were re-established in current year. Per the DFAS, entity assets reclassified as non-entity assets (collections) would go to the Treasury of the United States instead of to the Defense Threat Reduction Agency.



## **Composition of Entity - Other Assets**

Intragovernmental Assets (In thousands)

Line 1.D. Other Assets \$ 6

Intragovernmental other assets include departmental elimination adjustments made to the Chemical Biological Defense Program. See the discussion below regarding eliminations.

Non-Federal Assets (In thousands)

Line 2.G. Other Assets \$ 35,728

Non-federal other assets represent progress payments made to others as part of the Chemical Biological Defense Program via the Department of the Army (Department). Dialogue with the appropriate Department activities (Rock Island and St. Louis) indicates that the Department's accounting offices make progress payments to private contractors based upon a percentage of completed work. The Department is considered the sole activity to benefit or receive the finalized product. Further, the Department determined that the payments were made for items such as weapon systems and missiles and electronic equipment as opposed to buildings, structures, etc.

## **Information Related to Accounts Payable**

The DTRA's operating expenses were adjusted based on a comparison between the DTRA's accounts payable and the DoD summary level seller accounts receivable. Under the provisions of the DoD Financial Management Regulation, Volume 6B, Chapter 13, the DTRA's request for a waiver was denied; therefore, the Seller-Side Rule prevailed and revenues were not adjusted to agree with the DTRA's Expenses (Buyer-Side).

## Allocation of Undistributed Disbursements

The DoD policy is to allocate supported undistributed disbursements between federal and nonfederal categories based on the percentage of Federal and Non-federal accounts payable.



### Intragovernmental Eliminations.

For the majority of intraagency sales, the DTRA's accounting system captures trading partner data at the transaction level for transactions generated by the DTRA. However, the accounting system does not capture this information in a manner that facilitates trading partner aggregations (meaning the system does not interface with other activities' systems to reach in and gather the corresponding side of our transaction). Therefore, the DTRA was unable to fully reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished with the existing or foreseeable resources.

### **Note Reference**

For additional line item discussion, see Note 1, Significant Accounting Policies; Note 3, Fund Balance with Treasury; Note 5, Accounts Receivable; Note 6, Other Assets; and Note 10, General PP&E, Net.

For regulatory discussion on Nonentity and Entity Assets, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1004.





### Note 3. Fund Balance with Treasury

As of September 30 (Amounts in thousands)	2003	2002
<b>1. Fund Balances:</b>		
A. Appropriated Funds	\$ 3,421,534	\$ 2,728,816
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Other Fund Types	0	4,911
E. Total Fund Balances	<u>\$ 3,421,534</u>	<u>\$ 2,733,727</u>
<b>2. Fund Balances Per Treasury Versus Agency:</b>		
A. Fund Balance per Treasury	\$ 0	\$ 0
B. Fund Balance per DTRA	3,421,534	2,733,727
C. Reconciling Amount	<u>\$ (3,421,534)</u>	<u>\$ (2,733,727)</u>

#### 3. Explanation of Reconciliation Amount:

#### 4. Other Information Related to Fund Balance with Treasury:

##### **Fluctuations and/or Abnormalities**

###### Fluctuations

Congressional increased funding for Fiscal Year 2003 for both the Defense Threat Reduction Agency (DTRA) and the Chemical Biological Defense Program (Chem-Bio) in the amount of \$692,718 thousand, or 25 percent. The DTRA received additional funding in support of the Iraqi Weapons Elimination Program. The Chem-Bio Program received additional funding in support of advancing war-fighting techniques used in combating weapons of mass destruction.

###### Abnormalities

Fund Balance with Treasury includes an abnormal balance, submitted by the Defense Special Weapons Agency, in the amount of \$1,546 thousand. This abnormal balance is the result of uncollected reimbursement receivables for reimbursable orders. The appropriate collection action is in progress.



## **Note Reference**

See Note Disclosure 1.I., Significant Accounting Policies, for additional discussion on financial reporting requirements and Department of Defense (DoD) policies governing Funds with the United States Treasury.

See Note 2 and Note 21B for further discussion on Other Fund Balance Types (e.g., Suspense, Budget Clearing, Special, and Deposit, etc.)

See Note 18 for information summarizing the status of Fund Balance with Treasury as discussed by Office of Management and Budget Bulletin 01-09.

For regulatory discussion on FBWT, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 100501.



**Note 4. Investments**

As of September 30

	2003				2002	
	Cost	Amortization Method	Amortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in thousands)						
<b>1. Intra-governmental Securities:</b>						
A. Marketable	\$ 0		\$ 0	\$ 0	0	\$ 0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	0		0	0	0	0
D. Subtotal	0		0	0	0	0
E. Accrued Interest	0		\$ 0	\$ 0	0	\$ 0
F. Total Intragovernmental Securities	0		\$ 0	\$ 0	0	\$ 0
<b>2. Other Investments:</b>	\$ 0		0	0	0	\$ 0
<b>3. Other Information:</b>						



## Note 5. Accounts Receivable

As of September 30	2003			2002
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	\$ 55,269	N/A	\$ 55,269	\$ 46,864
2. Non-Federal Receivables (From the Public):	\$ 2,894	\$ 0	\$ 2,894	\$ 3,222
3. Total Accounts Receivable:	\$ 58,163	\$ 0	\$ 58,163	\$ 50,086
4. Allowance method:				

### 5. Other information:

#### Fluctuations and/or Abnormalities

##### Fluctuations

- Line 1. The increase of \$8,408 thousand in intragovernmental receivables, or 18 percent, is primarily attributable to new receivables established and adjustments required by Cash Management Report (CMR). Specifically, collections reported by field Accounting Offices via accounting systems external to the Defense Threat Reduction Agency (DTRA) must reconcile to the Treasury of the United States (TUS) through the CMR. As a result of timing differences in the Transactions-By-Others processes, collections being reported from the field do not always agree with CMR Reports provided to the TUS. Therefore, adjustments are required to bring collections from the field into agreement with what had been reported to the TUS. This time lag is an inherent part of the process, which is closely monitored to insure a reconciliation is realized.
- Line 2. The decrease of \$329 thousand in non-federal receivables is entirely attributable to the transfer of the Space Launch Program from the DTRA to the Defense Technology Security Administration. This transfer was effective as of the beginning of Fiscal Year (FY) 2003.

#### Information Related to Accounts Receivable

##### Allowance Method

The DTRA will establish an allowance for estimated uncollectibles prior to the end of 1<sup>st</sup> Quarter, FY 2004.





### Allocation of Undistributed Collections

The policy of the Department of Defense (DoD) is to allocate supported undistributed collections to federal and non-federal categories based on the percentage of federal and non-federal accounts.

### Elimination Adjustments

For the majority of intra-agency sales, the DTRA's accounting system captures trading partner information at the transaction level for transactions generated by the DTRA. However, the accounting system does not capture this information in a manner that facilitates trading partner aggregations (meaning the system does not interface with other activities' systems to reach in and gather the corresponding side of the transaction). As a result, the DTRA was unable to fully reconcile intragovernmental accounts receivable to the related intragovernmental accounts payable that generated the payable. Through the Business Management Modernization Program, the Department intends to develop long-term system improvements that will capture the data necessary to perform reconciliations.

### Receivables over 180 Days

(In thousands)

Public	\$ 117
Intragovernmental	
Due within DoD	\$10,819
Debt Outside DoD	<u>3,290</u>
Total Intragovernmental	\$14,109

### **Note Reference**

See Note Disclosure 1.K., Significant accounting policies, for additional discussion on accounting requirements and DoD policies governing Accounts Receivable.

For further discussion on accounts receivable, see DoD Financial Management Regulation, Chapter 10, paragraph 1007.



**Note 6. Other Assets**

As of September 30	2003	2002
(Amounts in thousands)		
<b>1. Intra-governmental Other Assets:</b>		
A. Advances and Prepayments	\$ 6	\$ 126
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 6	\$ 126
<b>2. Non-Federal Other Assets:</b>		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	35,729	32,370
C. Total Non-Federal Other Assets	\$ 35,729	\$ 32,370
<b>3. Total Other Assets:</b>	\$ 35,735	\$ 32,496

**4. Other Information Related to Other Assets:****Fluctuations and/or Abnormalities**Fluctuations

Line 1.A. The Defense Threat Reduction Agency (DTRA) reported a decrease of \$120 thousand, or -95 percent, in intragovernmental other assets, which is attributed to advances made to the Army Working Capital Fund for the Chemical Biological Defense Program.

Line 2.B. The DTRA reported an increase of \$3,358 thousand, or 10 percent in non-federal other assets, due to the conversion of Centrally Managed Contracts within the Mechanization of Contract Administration Services. See discussion, below.

**Composition of Non-Federal Other Assets**Department of the Army

Line 2.B. Non-federal other assets include progress payments made by the Department of the Army (Department) to private contractors, as part of the Chemical Biological Defense Program. Research with the appropriate Army/Defense Finance and Accounting Service activities (Rock Island and St. Louis) indicates that the Department's accounting offices make progress payments to private contractors based upon a percentage of completed work. The Department is considered the sole activity to benefit or receive the finalized product. Further, it was determined that the payments were made for items such as weapon systems and missiles and electronic equipment as opposed to buildings, structures, etc.



**Note Reference**

See Note Disclosure 1.R., Significant Accounting Policies, for additional discussion on financial reporting requirements and Department of Defense (DoD) policies governing other assets.

For regulatory discussion on other assets, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.



**Note 7. Cash and Other Monetary Assets**

As of September 30	2003	2002
(Amounts in thousands)		
1. Cash	\$ 0	\$ 0
2. Foreign Currency (non-purchased)	0	0
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 0</u>	<u>\$ 0</u>

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





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

**1. Direct Loan and/or Loan Guarantee Programs:** The entity operates the following direct loan and/or loan guarantee program(s):

Military Housing Privatization Initiative  
Armament Retooling & Manufacturing Support Initiative

**2. Other Information:**



**Note 8.B. Direct Loans Obligated After FY 1991**

As of September 30 (Amounts in thousands)	2003	2002
Loan Programs		
<b>1. Military Housing Privatization Initiative:</b>		
A. Loans Receivable Gross	\$ 0	\$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Direct Loans	\$ 0	\$ 0
<b>2. Armament Retooling &amp; Manufacturing Support Initiative:</b>		
A. Loans Receivable Gross	\$ 0	\$ 0
B. Interest Receivable	0	0
C. Foreclosed Property	0	0
D. Allowance for Subsidy Cost (Present Value)	0	0
E. Value of Assets Related to Direct Loans	\$ 0	\$ 0
<b>3. Total Loans Receivable:</b>	\$ 0	\$ 0
<b>4. Other Information:</b>		



**Note 8. C. Total Amount of Direct Loans Disbursed**

As of September 30 (Amounts in thousands)	2003	2002
Direct Loan Programs		
1. Military Housing Privatization Initiative:	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	0	0
3. Total	\$ 0	\$ 0

4. Other Information:









	2003	2002
<b>5. Total Direct Loan Subsidy Expense:</b>		
Military Housing Privatization Initiative	\$ 0	0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	\$ 0	\$ 0

**6. Other Information:**



**Note 8.E. Subsidy Rate for Direct Loans**

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

3. Other Information:



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

Beginning Balance, Changes and Ending Balance	2003
(Amounts in thousands)	
<b>1. Beginning balance of the subsidy cost allowance</b>	\$ 0
<b>2. Add: subsidy expense for direct loans disbursed during the reporting years by component:</b>	
A. Interest rate differential costs	0
B. Default costs (net of recoveries)	0
C. Fees and other collections	0
D. Other subsidy costs	0
E. Total of the above subsidy expense components	0
<b>3. Adjustments:</b>	
A. Loan modifications	0
B. Fees received	0
C. Foreclosed property acquired	0
D. Loans written off	0
E. Subsidy allowance amortization	0
F. Other	0
G. Total of the above adjustment components	0
<b>4. Ending balance of the subsidy cost allowance before reestimates</b>	\$ 0
<b>5. Add or subtract subsidy reestimates by component:</b>	
A. Interest rate reestimate	0
B. Technical/default reestimate	0
C. Total of the above reestimate components	0
<b>6. Ending balance of the subsidy cost allowance</b>	\$ 0



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

As of September 30

2003

2002

(Amounts in thousands)

### Loan Guarantee Program(s)

#### 1. Military Housing Privatization Initiative:

A. Defaulted Guaranteed Loans	\$	0	\$	0
Receivable, Gross				
B. Interest Receivable		0		0
C. Foreclosed Property		0		0
D. Allowance for Subsidy Cost (Present Value)		0		0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$	0	\$	0

#### 2. Armament Retooling & Manufacturing Support Initiative

A. Defaulted Guaranteed Loans	\$	0	\$	0
Receivable, Gross				
B. Interest Receivable		0		0
C. Foreclosed Property		0		0
D. Allowance for Subsidy Cost (Present Value)		0		0
E. Value of Assets Related to Defaulted Guaranteed Loans Receivable	\$	0	\$	0





**Note 8.H. Guaranteed Loans Outstanding**

As of September 30 (Amounts in thousands)		Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
<b>2003</b>			
<b>Loan Guarantee Program Title</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative		0	0
3. Total	\$	0	\$ 0
<b>2002</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative		0	0
3. Total	\$	0	\$ 0

4. Other Information:



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

As of September 30		2003	2002
(Amounts in thousands)			
<b>Loan Guarantee Program Title</b>			
1. Military Housing Privatization Initiative	\$	0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative		0	0
3. Total	\$	0	\$ 0
4. Other Information:			



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

As of September 30 (Amounts in thousands)							
		2003		2002			
		Interest Differential	Defaults	Fees	Other	Total	
<b>1. Subsidy Expense for New Loan Guarantees Disbursed:</b>							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	<b>Total</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
<b>2. Subsidy Expense for New Loan Guarantees Disbursed:</b>							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	<b>Total</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
<b>3. Loan Guarantee Modifications and Reestimates:</b>							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	<b>Total</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
<b>4. Loan Guarantee Modifications and Reestimates:</b>							
	Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
	Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0	0
	<b>Total</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0



	2003	2002
<b>5. Total Loan Guarantee Subsidy Expense:</b>		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	\$ 0	\$ 0

**6. Other Information:**





**Note 8.K. Subsidy Rate for Loan Guarantees**

	Interest Supplements	Defaults	Fees and other Collections	Other	Total
<b>Loan Guarantees:</b>					
1. Military Housing Privatization Initiative:	0.00%	0.00%	0.00%	0.00%	0.00%
2. Armament Retooling & Manufacturing Support Initiative	0.00%	0.00%	0.00%	0.00%	0.00%

3. Other Information:



**Note 8.L.****Schedule for Reconciling Loan Guarantee Liability Balances for Post-1991 Loan Guarantees**

2003

**Beginning Balance, Changes and Ending Balance**

(Amounts in thousands)

<b>1. Beginning balance of the loan guarantee liability</b>	\$	0
<b>2. Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:</b>	\$	
A. Interest supplement costs		0
B. Default costs (net of recoveries)		0
C. Fees and other collections		0
D. Other subsidy costs		0
E. Total of the above subsidy expense components	\$	<u>0</u>
<b>3. Adjustments:</b>	\$	
A. Loan guarantee modifications		0
B. Fees received		0
C. Interest supplements paid		0
D. Foreclosed property and loans acquired		0
E. Claim payments to lenders		0
F. Interest accumulation on the liability balance		0
G. Other		0
H. Total of the above adjustments	\$	<u>0</u>
<b>4. Ending balance of the loan guarantee liability before reestimates</b>	\$	<u>0</u>
<b>5. Add or subtract subsidy reestimates by component:</b>		
A. Interest rate reestimate		0
B. Technical/default reestimate		0
C. Total of the above reestimate components	\$	<u>0</u>
<b>6. Ending balance of the loan guarantee liability</b>	\$	<u>0</u>
<b>7. Other Information:</b>		



**Note 8.M. Administrative Expense**

As of September 30	2003	2002
(Amounts in thousands)		
<b>1. Direct Loans:</b>		
Military Housing Privatization Initiative	0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	0	\$ 0
<b>2. Loan Guarantees:</b>		
Military Housing Privatization Initiative	0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	0	\$ 0
<b>3. Other Information:</b>		



**Note 9. Inventory and Related Property**

As of September 30

(Amounts in thousands)

	2003	2002
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	0	0
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	\$ 0	\$ 0









**Note 9.B. Operating Materials and Supplies, Net**

As of September 30

	2003		2002	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	
	\$	0 \$	0 \$	0
		0	0	0
		0	0	0
	\$	0 \$	0 \$	0

(Amounts in thousands)

**1. OM&S Categories:**

- A. Held for Use
- B. Held for Repair
- C. Excess, Obsolete, and Unserviceable
- D. Total

**Legend for Valuation Methods:**

Adjusted LAC = Latest Acquisition Cost  
 adjusted for holding gains and losses

SP = Standard Price  
 AC = Actual Cost

**2. Restrictions on OM&S:**

**3. Other Information:**

NRV = Net Realizable Value  
 O = Other



**Note 9.C. Stockpile Materials, Net**

As of September 30

	2003		2002	Valuation Method
	Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	
(Amounts in thousands)				
<b>1. Stockpile Materials Categories:</b>				
A. Held for Sale	\$ 0	\$ 0	\$ 0	0
B. Held in Reserve for Future Sale	0	0	0	0
C. Total	\$ 0	\$ 0	\$ 0	0

(Amounts in thousands)

**1. Stockpile Materials Categories:**

- A. Held for Sale
- B. Held in Reserve for Future Sale

C. Total

**Legend for Valuation Methods:**

LAC= Latest Acquisition Cost

SP= Standard Price

AC= Actual Cost

NRV = Net Realizable Value

O = Other

**2. Restrictions on Stockpile Materials:**

**3. Other Information:**



## Note 10. General PP&E, Net

As of September 30	2003					2002
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes:</b>						
A. Land	N/A	N/A	\$ 0	N/A \$	0	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	836 \$	(836)	0	591
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0	0
E. Equipment	S/L	5 Or 10	51,129	(15,379)	35,750	50,541
F. Assets Under Capital Lease <sup>1</sup>	S/L	lease term	0	0	0	0
G. Construction-in- Progress	N/A	N/A	18,208	N/A	18,208	12,298
H. Other			0	0	0	0
I. Total General PP&E			\$ 70,173 \$	(15,215) \$	\$ 53,958	\$ 63,430

<sup>1</sup> Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

2. Other Information:

### Relevant Information for Comprehension

### Fluctuation and/or Abnormalities

### Fluctuations

Line 1.B. The decrease of \$591 thousand in Buildings, Structures and Facilities, or -100 percent, results from the completed depreciation of assets for canceling-year appropriation 0500.3301 (Military Construction - On-Site Inspection Agency), Fiscal Year 1993/1998.





Line 1.E. The decrease of \$14,790 thousand in equipment, or -29 percent, is primarily attributable to appropriate and accurate revaluation of property-in-the-hands-of-contractors, based on audit review and recommendation.

Line 1.G. The increase of \$5,909 thousand in construction-in-progress, or 48 percent, results from approved construction of the new Defense Threat Reduction Center.

**Relevant Information for Comprehension**

The value of the Defense Threat Reduction Agency's (DTRA) general property, plan and equipment (PP&E) personal property (Major Asset Class of Equipment) includes all of the general PP&E in the possession of contractors above Department of Defense (DoD) capitalization threshold. The net book value (NBV) of such property, in relation to the total general PP&E NBV for the DoD government-wide financial statements, is immaterial. In accordance with an Office of Management and Budget approved strategy, the General Accounting Office and the DoD Inspector General, the Department is developing new policies and a contractor reporting process to capture general PP&E information for future reporting purposes for compliance with generally accepted accounting standards.

The DTRA recognizes that inclusion in the Major Asset Class of property-in-the-hands-of-the-contractor, is contrary to DoD directives. However, the decision to include such property was based on an audit recommendation from the independent audit firm retained by the DTRA. The audit firm made its recommendation based on the Statement of Federal Financial Accounting Standards (SFFAS) and stated concepts of the Federal Accounting Standards Advisory Board (FASAB).

Property in Hands of Contractors

Acquisition Value	\$41,455,998.00
Depreciation	<u>(2,609,660.00)</u>
Net Book Value	\$31,846,338.00

**Note Reference**

See Note Disclosure I.Q., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

For regulatory discussion on General PP&E, Net, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1012.



**Note 10.A. Assets Under Capital Lease**

As of September 30	2003	2002
(Amounts in thousands)		
<b>1. Entity as Lessee, Assets Under Capital Lease:</b>		
A. Land and Buildings	0	\$ 0
B. Equipment	0	0
C. Other	0	0
D. Accumulated Amortization	0	0
E. Total Capital Leases	\$ 0	\$ 0

**2. Description of Lease Arrangements:**

**3. Other Information:**

Not applicable



**Note 11. Liabilities Not Covered and Covered by Budgetary Resources**

	2003		2002	Not Covered by Budgetary Resources
	Covered by Budgetary Resources	Not Covered by Budgetary Resources		
As of September 30				
(Amounts in thousands)				
<b>1. Intra-governmental Liabilities:</b>				
A. Accounts Payable	\$ 29,721	\$ 0	\$ 29,721	\$ 0
B. Debt	0	0	0	0
C. Environmental Liabilities	0	0	0	0
D. Other	916	455	1,371	367
E. Total Intra-governmental Liabilities	\$ 30,637	\$ 455	\$ 31,092	\$ 367
<b>2. Non-Federal Liabilities:</b>				
A. Accounts Payable	\$ 239,824	\$ 0	\$ 239,824	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	2,053	2,053	2,409
C. Environmental Liabilities	1,537	0	1,537	1,895
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	3,166	14,653	17,819	8,034
F. Total Non-Federal Liabilities	\$ 244,527	\$ 16,706	\$ 261,233	\$ 12,338
<b>3. Total Liabilities:</b>	\$ 275,164	\$ 17,161	\$ 292,325	\$ 12,705
<b>4. Other Information:</b>				



## **Definitions**

Liabilities Not Covered by Budgetary Resources. Liabilities that are not considered covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass the following:

- New budget authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year.
- Borrowing authority or permanent indefinite appropriations, which have been enacted and signed into law as of the Balance Sheet date, provided that the resources may be apportioned by the Office of Management and Budget (OMB) without further action by Congress or without a contingency first having to be met.

Liabilities Covered by Budgetary Resources. Liabilities incurred by the reporting entity, which are covered by realized budget resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include the following:

- New Budget Authority.
- Spending authority from offsetting collections (credited to an appropriation or fund account).
- Recoveries of unexpired budget authority through downward adjustments of prior-year obligations.
- Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year.
- Borrowing authority or permanent indefinite appropriations, 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 and/or Abnormalities**

### Fluctuations

Explanations for fluctuations are explained in the individual footnotes.





**Note Reference**

For additional line item discussion, see:

Note 12, Accounts Payable

Note 14, Environmental Restoration Liabilities and Environmental Disposal Liabilities

Note 15, Other Liabilities

Note 17, Military Retirement Benefits and Other Employment-Related Actuarial Liabilities



**Note 12. Accounts Payable**

As of September 30

	2003		2002	
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intra-governmental Payables:	\$ 29,719	N/A	\$ 29,719	\$ 42,054
2. Non-Federal Payables (to the Public):	\$ 239,826	\$ 0	\$ 239,826	\$ 31,171
3. Total	\$ 269,545	\$ 0	\$ 269,545	\$ 73,225

(Amounts in thousands)

**4. Other Information:**

**Definitions:**

Intragovernmental Payables. 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 to non-federal government entities.

Cash Management Report. All disbursements/collections reported by field accounting offices via their unique supporting accounting systems, must reconcile to that same data, which is being reported via the Cash Management Report (CMR) to the Treasury of the United States (TUS). As a result of inherent timing differences transaction-by-other processes, collections reported from the field do not always agree with what is being reported to TUS. Therefore, adjustments are required to bring collections submitted from the field into agreement with what is reported to TUS.



## **Fluctuation and/or Abnormalities**

### Fluctuations

Line 1. The decrease of \$12,336 thousand in intragovernmental accounts payable, or -29 percent, is primarily attributable to CMR adjustments, specifically for disbursements-in-transit. (See CMR definition above.) Included in the intragovernmental accounts payable, is an adjustment of \$21,346 thousand for eliminations. The Defense Threat Reduction Agency's (DTRA's) intragovernmental accounts payables were adjusted by seller-side data (account balances provided by the selling agency).

Line 2. The \$208,656 increase in non-federal payables (to the public), or 669 percent, is primarily attributable to establishing new payables; an increase of \$178,412 thousand for elimination adjustments to the Chemical Biological Defense Program; and CMR adjustments of approximately \$32,000 thousand.

### **Information Related to Accounts Payable**

The DTRA's operating expenses were adjusted based on a comparison between the DTRA's accounts payable and the Department of Defense (DoD) summary level seller accounts receivable. Under the provisions of the DoD Financial Management Regulation (FMR), Volume 6B, Chapter 13, the DTRA's request for a waiver was denied; therefore, the seller-side Rule prevailed and revenues were not adjusted to agree with the DTRA's expenses (buyer-side).

### Allocation of Undistributed Disbursements

The DoD policy is to allocate supported undistributed disbursements between federal and non-federal categories based on the percentage of federal and non-federal accounts payable.



### Intragovernmental Eliminations.

For the majority of intra-agency sales, the DTRA's accounting system captures trading partner data at the transaction level for transactions generated by the DTRA. However, the accounting system does not capture this information in a manner that facilitates trading partner aggregations (meaning the system does not interface with other activities' systems to reach in and gather the corresponding side of the DTRA's transaction). As a result, the DTRA was unable to fully reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable. Prior to 3<sup>rd</sup> Quarter, FY 2003, the DTRA had an eliminations waiver, whereby, the Buyer-Side rules. Therefore, the Defense Finance and Accounting Service adjusted the Sciller-Side accounts receivable to agree with the DTRA's accounts payable. Through the ongoing Business Management Modernization Program, the Department intends to develop long-term system improvements that will capture the data necessary to perform reconciliations.

### **Note Reference**

See Note Disclosure I.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 DoD FMR, Volume 6B, Chapter 10, paragraph 1014.





**Note 13. Debt**

As of September 30

(Amounts in thousands)

	2003			2002
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
<b>1. Public Debt:</b>				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
<b>2. Agency Debt:</b>				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	\$ 0	\$ 0	\$ 0	\$ 0
<b>3. Total Debt:</b>	\$ 0	\$ 0	\$ 0	\$ 0
<b>4. Classification of Debt:</b>				
A. Intra-governmental Debt		\$	\$	\$
B. Non-Federal Debt			N/A	N/A
C. Total Debt		\$	\$	\$

**5. Other Information:**



**Note 14. Environmental Liabilities and Disposal Liabilities**

As of September 30

2003

2002

(Amounts in thousands)

**1. Environmental Liabilities – Non Federal**

A. Accrued Environmental Restoration (DERP funded) Costs:

	Current Liability	Noncurrent Liability	Total
1. Active Installations--Environmental Restoration (ER)	\$ 0	\$ 0	\$ 0
2. Active Installations--ER for Closed Ranges	0	0	0
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0

B. Other Accrued Environmental Costs (Non-DERP funds)

1. Active Installations--Environmental Corrective Action	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0
3. Active Installations--Environ.Response at Active Ranges	0	0	0
4. Other	0	1,536	1,536

C. Base Realignment and Closure (BRAC)

1. BRAC Installations--Environmental Restoration (ER)	0	0	0
2. BRAC Installations--ER for Transferring Ranges	0	0	0
3. BRAC Installations--Environmental Corrective Action	0	0	0
4. Other	0	0	0

D. Environmental Disposal for Weapons Systems Programs

1. Nuclear Powered Aircraft Carriers	0	0	0
2. Nuclear Powered Submarines	0	0	0
3. Other Nuclear Powered Ships	0	0	0
4. Other National Defense Weapons Systems	0	0	0
5. Chemical Weapons Disposal Program	0	0	0
6. Other	0	0	0

**2. Total Environmental Liabilities:**

	\$ 0	\$ 1,536	\$ 1,536
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**3. Other Information Related to Environmental Liabilities:**

	\$ 0	\$ 1,896	\$ 1,896
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## **Fluctuations and/or Abnormalities**

### Fluctuations

The decrease of \$326 thousand in environmental liabilities - non-federal, or -17 percent, is attributed to the decrease of estimated-costs per-annum as the cleanup initiative progresses and disbursements are made to expense the funds obligated.

## **Information Related to Environmental Liabilities**

### Composition of Other Liabilities

Line B.4. – Other Accrued Environmental Costs - Non-Defense Environmental Restoration Program (Non-DERP)

Non-federal liabilities (non-current) of \$1,536 thousand represent estimates for cleanup costs for the Defense Threat Reduction Agency.

### General Disclosures

The source of cleanup requirements are the Code of Federal Regulations, CFR 10, 40, 29, and 49 and a Federal Facilities Agreement and Consent Order. Cleanup cost sites include Nevada Test Site, White Sands Missile Range, Kirtland AFB and Johnston Atol.

## **Note Reference**

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



**Note 15.A. Other Liabilities**

As of September 30

(Amounts in thousands)

	2003		2002
	Current Liability	Noncurrent Liability	
<b>1. Intra-governmental:</b>			
A. Advances from Others	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0
D. Resources Payable to Treasury	0	0	0
E. Disbursing Officer Cash	0	0	0
F. Nonenvironmental Disposal Liabilities:			
(1) National Defense PP&E (Nonnuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
(4) Other	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0
H. Judgement Fund Liabilities	0	0	0
I. FECA Reimbursement to the Department of Labor	0	455	367
J. Capital Lease Liability	0	0	0
K. Other Liabilities	918	0	459
<b>L. Total Intra-governmental Other Liabilities</b>	<b>\$ 918</b>	<b>\$ 455</b>	<b>\$ 826</b>
		<b>\$ 1,373</b>	





As of September 30

(Amounts in thousands)

2003

2002

	Current Liability	Noncurrent Liability	Total	Total
<b>2. Non-Federal:</b>				
A. Accrued Funded Payroll and Benefits	\$ 3,317	\$ 0	\$ 3,317	\$ 1,726
B. Advances from Others	(4,911)	0	(4,911)	4,911
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	85	85	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	8,481	109	8,590	565
J. Accrued Unfunded Annual Leave	6,064	0	6,064	7,469
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	4,674	0	4,674	2,928
N. Total Non-Federal Other Liabilities	17,625	194	17,819	17,599
<b>3. Total Other Liabilities:</b>	18,543	649	19,192	18,425

**4. Other Information Pertaining to Other Liabilities:**

**Fluctuations and/or Abnormalities**

Fluctuations

Line 1.I. The increase of \$88 thousand, or 24 percent, is attributed to Department of Labor chargeback billing to responsible agencies for Federal Employees Compensation Act claims for benefit coverage of death, disability, medical and miscellaneous costs for approved cases of on-the-job incidents.

Line 1.K. The increase of \$460 thousand, or 100 percent, is primarily attributed to an increase in the Voluntary Separation Incentive Program for Fiscal Year (FY) 2003.

Line 2.A. The increase of \$1,591 thousand, or 92 percent, is attributed to system generated Miscellaneous Obligation Documents (MODs) for payroll that covered the last seven days of FY 2003. The MODs totaled approximately \$1.6m for the period ended September 30, 2003.



Line 2.F. The increase of \$85 thousand, or 100 percent, in non-current liabilities for deposit funds and suspense accounts is attributed to the and unsupported undistributed collections executed by the Department of the Army (Department) activities for the Defense Special Weapons Agency (DSWA) Counter Threat Reduction program. The DTRA is working with the Department activities to correct during FY 2004.

Line 2.I. The increase of \$8,024 thousand, or 1,520 percent, in accounts payable—canceled appropriations is primarily attributable to the Chemical Biological Defense Research and Development Program, Fiscal Year (FY) 1996/1998 appropriation, which was cancelled as of September 30, 2003. The Defense Finance and Accounting Service - Cleveland (DFAS-CL) and Denver (DFAS-DE) submitted \$8,541 thousand and \$150 thousand, respectively, in the accounts payable—canceled appropriations account. In addition, \$150 thousand represents adjustments made for canceling year appropriations.

Line 2.J. The decrease of \$1,405 thousand, or -19 percent, in accrued unfunded annual leave is primarily attributed to the correction of a prior-year balance for the DSWA and a decrease in current-year unfunded leave liability for the DTRA.

Line 2.M. The aggregate increase of \$495 thousand, or 17 percent, is the result of the following:

- An increase of \$1,753 thousand representing Contract Holdbacks for DSWA reported by the Department for Mechanization of Contract Administration Services for accruals at the end of FY 2003.
- An increase of \$1,747 thousand in other liabilities.
- These increases are partially offset by a decrease of \$1,259 thousand in employer contributions and payroll taxes.

Line 2.N. The increase of \$221 thousand in total non-federal liabilities is the cumulative result of the following:

(Amounts in thousands)	
Increase in Accrued Funded Payroll	\$ 1,591
Decrease in Advances from Others	(9,822)
Increase in Deposit Funds and Suspense Accounts	85
Increase in Accounts Payable - Cancelled Appropriations	8,024
Decrease in Accrued Unfunded Leave	(1,405)
Increase in Other Liabilities	1,748
<b>Cumulative increase in Total Other Liabilities is \$0 thousand, or zero percent</b>	<b>\$ 221</b>



Abnormalities

Line 2.B. The abnormal balance of -\$4,911 thousand for advances from others is the result of the reversal of a prior-year adjustment for unearned revenues/advances received from the public in support of the Space Launch Program. As of September 30, 2003, the account balance for advances from others should be zero. This abnormal balance will be corrected in 1<sup>st</sup> Quarter, FY 2004.

**Other Information Related to Non-Federal Other Liabilities**

Composition of Other Liabilities

Line 2.M. Other liabilities is comprised of the following (+/- 10 percent of total Other Liabilities):  
(Amounts in thousands)

Accounts Payable from Canceled Appropriations	\$ 8,506
Unfunded Leave	6,064
Advances from Others	(4,911)
Accrued Funded Payroll and Leave	3,317
Other Liabilities	2,589
Contract Holdbacks	1,753
Employer Contributions and Payroll Taxes Payable	1,669

**Note Reference**

Please refer to Note 11 for additional explanations on Intragovernmental Liabilities and Non-Federal Liabilities.

See Note Disclosure I.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 DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.



**Note 15.B.**

**Capital Lease Liability**

	2003			2002
	Asset Category			Total
	Land and Buildings	Equipment	Other	
<b>1. Future Payments</b>				
<b>Due:</b>				
A. 2004	\$ 0	\$ 0	\$ 0	\$ 0
B. 2005	0	0	0	0
C. 2006	0	0	0	0
D. 2007	0	0	0	0
E. 2008	0	0	0	0
F. After 5 Years	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0
H. Less: Imputed Interest				
Executory Costs	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Capital Lease Liabilities Covered by Budgetary Resources:</b>				
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources:</b>				
<b>4. Other Information:</b>				

The Defense Threat Reduction Agency has no capital lease liabilities to report.





<b>Note 16.</b>	<b>Commitments and Contingencies</b>
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Disclosures Related to Commitments and Contingencies:



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

As of September 30

	2003			2002
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	
<b>(Amounts in thousands)</b>				
<b>1. Pension and Health Benefits:</b>				
A. Military Retirement Pensions	\$ 0	\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0	0	0	0
C. Medicare-Eligible Retiree Benefits	0	0	0	0
D. Total Pension and Health Benefits	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Other:</b>				
A. FECA	2,052		\$ 0	\$ 2,409
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D. <i>[Enter Program Name]</i>	0		0	0
E. Total Other	\$ 2,052	\$ 0	\$ 2,052	\$ 2,409
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	\$ 2,052	\$ 0	\$ 2,052	\$ 2,409

(Amounts in thousands)

**1. Pension and Health Benefits:**

- A. Military Retirement Pensions
- B. Military Retirement Health Benefits
- C. Medicare-Eligible Retiree Benefits
- D. Total Pension and Health Benefits

**2. Other:**

- A. FECA
- B. Voluntary Separation Incentive Programs
- C. DoD Education Benefits Fund
- D. *[Enter Program Name]*
- E. Total Other

**3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:**



#### **4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:**

Actuarial Cost Method Used:

Assumptions:

Market Value of Investments in Market-based and Marketable Securities:

#### **Fluctuations and/or Abnormalities**

##### Fluctuations

Line 2.A. Other: FECA. See Note 11.

#### **Relevant Information for Comprehension**

The reporting of military retirement benefits and military retirement health benefits are reported separately by the Military Retirement Fund (MRF). The applicable portion of the military retirement benefits actuarial liability for the Defense Threat Reduction Agency (DTRA) is reported on the financial statements of the MRF.

Reporting liability pertaining to Federal Employees Compensation Act (FECA): The DTRA's actuarial liability for employees' compensation benefits is developed by the Department of Labor and provided to the DTRA at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the Office of Management and Budget's official economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits.

#### **Note Reference**

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



## Note 18. Unexpended Appropriations

As of September 30

	2003	2002
(Amounts in thousands)		
<b>1. Unexpended Appropriations:</b>		
A. Unobligated, Available	\$ 781,934	\$ 671,153
B. Unobligated, Unavailable	36,367	38,652
C. Unexpended Obligations	2,412,241	3,210,519
D. Total Unexpended Appropriations	<u>\$ 3,230,542</u>	<u>\$ 3,920,324</u>

### 2. Other Information Pertaining to Unexpended Appropriations:

#### Definitions

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

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

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

#### Fluctuations and /or Abnormalities

##### Fluctuations

The \$689,783 thousand decrease in total unexpended appropriations, or -18 percent, is attributable to agency level adjustments received for correction of the Fiscal Year 2003 beginning balance for unexpended obligations. Research determined adjustments to unexpended obligations were overstated. The discrepancy was subsequently corrected in the 4<sup>th</sup> Quarter, FY.





### **Information Related to Unexpended Appropriations**

Unexpended obligations reported as a component of unexpended appropriations include undelivered orders - unpaid and undelivered orders – paid only for direct appropriated funds. This amount is distinct from Line 12, Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided on the Statement of Financing (SOF). This line on the SOF includes the change in unexpended obligations against budget authority from all sources during the fiscal year.



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

### Disclosures Related to the Statement of Net Cost

#### **Fluctuations and/or Abnormalities**

##### Fluctuations

The variances depicted in the Statement of Net Costs (SoNC) for intragovernmental costs (federal/public) are due in large part to the adjustments required by the “eliminations process.” During the preparation of the FY 2002 financial statements, the Defense Threat Reduction Agency’s (DTRA’s) accounts payable, expenses and advances were governed by the “eliminations waiver guidelines” provided in the Department of Defense Financial Management Regulation, Volume 6B, Chapter 13. In accordance with these guidelines, these accounts would not be adjusted based on data provided by the selling agency. However, the FY 2003 financial statements were not prepared under the purview of the waiver guidelines, resulting in adjustments to accounts payable, expenses and advances.

Variances, which occurred as a result, are as follows.

Line 1.A. and 1B. Decrease of \$180,260 thousand in intragovernmental gross costs, and a decrease of \$7,169 in intragovernmental earned revenue.

Line 1.D. and 1.E. Increase of \$448,143 in gross costs with the public, and a decrease of \$291 thousand in earned revenue from the public.

##### Abnormalities

The \$1 thousand abnormal balance in earned revenues from the public is attributable to unliquidated obligation recoveries made in FY 2003 of prior period expenses for the On Site Inspection Agency.



## **Information Related to the Statement of Net Cost**

### Statement of Net Cost

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

### Reporting Entities

The amounts presented in the SoNC are based on obligations and disbursements and, therefore, may not in all cases report actual accrued costs. The DTRA records transactions on both accrual and budgetary basis in accordance with federal generally accepted accounting principles. Under the accrual basis, exchange revenues are recognized when earned and expenses are recognized when incurred. Budgetary accounting facilitates an entities compliance with legal constraints and controls over the use of federal funds. The Defense Finance & Accounting Service captures and compiles the information presented in the SoNC based on budgetary obligations, disbursements, and collection transactions, as well as integrating appropriate data from non-financial feeder systems and adjustments made to record accruals for items such as payroll expenses and expenditure transactions processed by others without the required pre-validation approval from DTRA.



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

As of September 30

Budget Functional Classification	2003		2002
	Gross Cost	Earned Revenue (Less: Revenue)	Net Cost
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0
3. Pollution Control and Abatement by U.S. Army Corps of Engineers (304)	0	0	0
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0
6. Medicare Eligible Retiree Health Care Fund (551)	0	0	0
7. Total	\$ 0	\$ 0	\$ 0
8. Other Information			

**Note Reference**

Department of Defense Financial Management Regulation (DoD FMR), Volume 6B, Chapter 10, Paragraph 102107.





**Note 19.C.**

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

As of September 30

	2003		2002
(Amounts in thousands)	Gross Cost to Generate Intra-governmental Revenue	(Less: Earned Revenue)	Net Cost
Budget Functional Classification			
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0
3. Pollution Control and Abatement by U.S. Army Corps of Engineers (304)	0	0	0
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0
6. Medicare Eligible Retiree Health Care Fund (551)	0	0	0
7. Total	\$ 0	\$ 0	\$ 0
8. Other Information			



**Note 19.D. Imputed Expenses**

As of September 30

(Amounts in thousands)

	2003	2002
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 2,749	\$ 2,642
2. Civilian Health	2,546	2,838
3. Civilian Life Insurance	13	14
4. Military Retirement Pension	0	75,071
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	\$ 5,308	\$ 80,565

8. Other information

**Relevant Information for Comprehension**

The civilian employee imputed expense cost factors are provided by the Office of Personnel Management (OPM) to the Office of the Under Secretary of Defense (Personnel and Readiness(OUSD (P&R))) and to the Defense Finance and Accounting Service (DFAS). The DFAS provides civilian employees' base salary and number of employees electing health benefits by reporting entity to OUSD (P&R). The OUSD (P&R) computes and validates the imputed expenses for civilian employee retirement and other civilian and military retirement benefits, and provides to reporting components for inclusion in the audited financial statements. The imputed expense amount in this note should equal the imputed financing amount in Note 20.

In FY 2002, the military retirement pension costs (Line 19.D.4) were recorded in the accounting system in compliance with Financial Accounting Standards Advisory Board requirements contained in the Statement on Federal Accounting Standards (SFFAS), Number 4. In FY 2003, however, it was determined that SFFAS, Number 4 had not been finalized, thus precluding the recording of military retirement pension costs in the accounting system. As a result, military retirement pension costs are only being disclosed in Note 24.B. (Other Disclosures).



**Note 19.E. Benefit Program Expenses**

As of September 30

(Amounts in thousands)

	2003	2002
1. Service Cost	\$ 0	\$ 0
2. Period Interest on the Benefit Liability	0	0
3. Prior (or past) Service Cost	0	0
4. Period Actuarial Gains or (Losses)	0	0
5. Gains/Losses Due to Changes in Medical Inflation Rate Assumption	0	0
6. Total Benefit Program Expense	\$ 0	\$ 0

7. Other Information



## **Note 19. F. Exchange Revenue**

Disclosures Related to the Exchange Revenue:

### **Definition**

#### Exchange Revenue

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

### **Reference**

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





<b>Note 19.G.</b>	<b>Amounts for Foreign Military Sales (FMS) Program Procurements from Contractors</b>
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Disclosures Related to Amounts for FMS Program Procurements from Contractors:

The cost of items purchased by foreign governments under the Foreign Military Sales Program and provided directly to the foreign governments by contractors are not reported in the SoNC.



## **Note 19.H. Stewardship Assets**

### Disclosures Related to Stewardship Assets:

Stewardship assets include heritage assets, stewardship land, non-federal physical property, and investments in Research and Development. The current-year costs of acquiring, constructing, improving, reconstructing or renovating stewardship assets are included in the SoNC. Material annual investment amounts related to stewardship assets are provided in the Required Supplemental Stewardship Information section of this financial statement.



## **Note 19.I. Intra-governmental Revenue and Expense**

Disclosures Related to Intra-governmental Revenue and Expense:

### Intragovernmental Revenue

The Defense Threat Reduction Agency (DTRA) accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DTRA was unable to fully reconcile intragovernmental revenue balances with its trading partners. The Department of Defense (DoD) 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 such reconciliations cannot be accomplished with the existing or foreseeable resources.

### Intragovernmental Operating Expenses

The DTRA's operating expenses were adjusted based on a comparison between the DTRA's accounts payable and the DoD summary level seller accounts receivables. The Defense Finance and Accounting Service posted an adjustment to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the DTRA were adjusted upward in the amount of \$45,222 thousand.



## Note 19.J. Suborganization Program Costs

As of September 30

(Amounts in thousands)	2003			2002
	Subentity A	Subentity B	Subentity C	
<b>1. Program A Costs:</b>				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Federal Costs:				
1. Transfer Payments	0	0	0	0
2. Administrative Costs	0	0	0	0
3. Other Costs	0	0	0	0
4. Program A Non-federal Costs	\$ 0	\$ 0	\$ 0	\$ 0
C. Total Program A Costs	\$ 0	\$ 0	\$ 0	\$ 0
<b>2. Program B Costs:</b>				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Federal Costs:				
1. Transfer Payments	0	0	0	0
2. Administrative Costs	0	0	0	0
3. Other Costs	0	0	0	0
4. Program B Nonfederal Costs	\$ 0	\$ 0	\$ 0	\$ 0
C. Total Program B Costs	\$ 0	\$ 0	\$ 0	\$ 0
<b>3. Program C Costs:</b>				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Federal Costs:				
1. Transfer Payments	0	0	0	0
2. Administrative Costs	0	0	0	0
3. Other Costs	0	0	0	0
4. Program C Nonfederal Costs	\$ 0	\$ 0	\$ 0	\$ 0
C. Total Program C Costs	\$ 0	\$ 0	\$ 0	\$ 0
<b>4. Program D Costs:</b>				
A. Intra-governmental Costs	\$ 0	\$ 0	\$ 0	\$ 0





<b>B. Non-Federal Costs:</b>			
1. Transfer Payments	0	0	0
2. Administrative Costs	0	0	0
3. Other Costs	0	0	0
4. Program D Non-federal Costs	\$ 0	\$ 0	\$ 0
<b>C. Total Program D Costs</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

**5. Other Information:**

**Note Reference**

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



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

	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
<b>As of September 30</b>				
<i>(Amounts in thousands)</i>				
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:</b>				
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
<b>2. Imputed Financing:</b>				
A. Civilian CSRS/FERS Retirement	\$ 2,749	\$ 0	\$ 2,644	\$ 0
B. Civilian Health	2,546	0	2,838	0
C. Civilian Life Insurance	12	0	14	0
D. Military Retirement Pension	0	0	75,071	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	0	0	0	0
G. Total Imputed Financing	\$ 5,307	\$ 0	\$ 80,567	\$ 0

**3. Other Information:**



## **Fluctuations and/or Abnormalities**

### Fluctuations

These costs will fluctuate since they are based on the number of full-time equivalents within an entity at any given point in time.

Imputed Financing Line 2.G. In FY 2002, the military retirement pension costs were recorded in the accounting system to comply with Federal Accounting Standards Advisory Board requirements contained in the Statement on Federal Financial Accounting Standard (SFFAS), Number 4. However, in FY 2003, it was determined that SFFAS, Number 4 had not been finalized, precluding the recording of military retirement pension costs in the accounting system. Therefore, military retirement pension costs are only being disclosed in Note 24.B. (Other Disclosures).

### **Definitions**

#### Imputed Financing

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

### **Note Reference**

For regulatory disclosure related to the Statement of Changes in Net Position, see the Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1022.



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

As of September 30 (Amounts in thousands)	2003	2002
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 2,453,489	\$ 2,252,380
2. Available Borrowing and Contract Authority at the End of the Period	0	0

3. Other Information:

**Information Related to the Statement of Budgetary Resources.**

Apportionment Categories for Obligations Incurred

	Report on Budget Execution (In Thousands)	Statement of Budgetary Resources (In Thousands)
Direct Obligations, Category A	2,912,777	2,622,337
Reimbursable Obligations	<u>35,526</u>	<u>35,526</u>
Total Obligations	2,948,303	2,657,863

The decrease of \$290,440 thousand in direct obligations is attributable to agency level adjustments received for correction of the Fiscal Year 2003 beginning balance for unexpended obligations. Research determined adjustments to unexpended obligations were overstated. The discrepancy was subsequently corrected in the 4<sup>th</sup> Quarter, FY 2003.





Apportionment Categories

The Office of Management and Budget Bulletin No. 01-09, section 9.27, specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under categories A, B and exempt from apportionment. This disclosure should agree with the aggregate of the related information as included in each reporting entity's Report on Budget Execution (Standard Form 133) and lines 8A and 8B in the Statement of Budgetary Resources (SBR).

Undelivered Orders

Undelivered Orders presented in the SBR 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 in the SBR), are not included in the Spending Authority from Offsetting Collections and Adjustments line in the SBR, or the Spending Authority for Offsetting Collections and Adjustments line in the Statement of Financing.



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

As of September 30	September 2001	September 2002	September 2003	(Decrease)/Increase from 2002 to 2003
<i>(Amounts in thousands)</i>				
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	\$ 27,879	\$ 540	\$ 1,506	\$ 966
B. Negative Unliquidated Obligations	0	330	100	( 230)
2. Total In-transit Disbursements, Net	\$ 8,229	\$ 3,553	\$ 84,506	\$ 80,953
3. Other Information Related to Problem Disbursements and In-transit Disbursement				

**Information Related to Problem Disbursements and In-transit Disbursements**

For 4<sup>th</sup> Quarter, FY 2003, The Defense Threat Reduction Agency (DTRA) has \$1,506 thousand (absolute value) in Unmatched Disbursements (UMDs), which is an increase of \$966 thousand since 4<sup>th</sup> Quarter, FY 2002. A UMD occurs when a payment is not matched to a corresponding obligation in the accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

The Defense Threat Reduction Agency reported \$100 thousand (absolute value) in Negative Unliquidated Obligations (NULOs), which is a decrease of \$230 thousand since 4<sup>th</sup> Quarter, FY 2002. A NULO occurs when a payment is made against a valid obligation, but the payment amount is greater than the amount of the obligation recorded in the official accounting system.



NULO's reported are for the Chemical Biological Defense Program.

These problem disbursements represent the absolute value of the DTRA's funds that have been reported by a disbursing station to the Department of the Treasury, but have not yet been matched against the specific source obligation that gave rise to the disbursements. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

For 4<sup>th</sup> Quarter, FY 2003 the DTRA reported \$84,506 thousand (net) in In-Transit disbursements, which is an increase of \$80,953 thousand since 4<sup>th</sup> Quarter, FY 2002. The In-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

As of September 30, 2003 the TBO Uncleared for DTRA reflects \$78,492 thousand, of which 68,491 thousand are new (aged 0-30 days).

An analysis of the data collected for prior years indicated that aged amounts versus total amounts were reported for In-transit disbursements for FY 2001 and FY 2002. Discrepancies were also identified in amounts reported for Absolute Unmatched Disbursements. Correct amounts for prior years are as follows.

	(In Thousands)	(In Thousands)
	September 2001	September 2002
1. A. Absolute Unmatched Disbursements	33,453	8,053
B. Negative Unliquidated Obligations	0.00 (no change)	0.00*
2. Total In-transit Disbursements, Net (Reported)	81,918	61,597

\*Chemical Biological Defense Program



4. Suspense/Budget Clearing Accounts, Net

Account	September 2001	September 2002	September 2003	(Decrease)/Increase
F3875	\$ 0	\$ 0	\$ 0	0
F3880	0	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0</b>

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





**Note 22.****Disclosures Related to the Statement of Financing**

Disclosures Related to the Statement of Financing:

Other Material Changes

The significant decrease of \$34,783 thousand from FY 2002 depicted at Line 27 in the Statement of Financing, is attributable to a streamlined program implemented by the Defense Threat Reduction Agency, whereby, discrepancies are promptly analyzed and processed for correction.

Liabilities Not Covered by Budgetary Resources

	(In thousands)
Liabilities not covered by budgetary resources	\$17,159
Financing sources yet to be provided	<u>(\$ 8,570)</u>
Difference	\$ 8,589

The \$8,589 thousand difference between recognized liabilities not covered by budgetary resources and total financing sources yet to be provided is included in balance sheet component 3.F. Other Liabilities and United States Standard General Ledger account number 2960 – Accounts Payable, Cancelled Accounts. At the end of FY 2003, the appropriation/budgetary resources covering these payables cancelled, leaving no budgetary authority to cover the liability. In addition, \$8,564 thousand of this amount is attributable to the FY 1997 appropriation for the Chemical Biological Defense Program – Research, Development, Test and Evaluation.

The discrepancy between the recognized liabilities not covered by budgetary resources and total financing sources yet to be provided was caused by the cancellation of the appropriation with outstanding account payable liabilities against those resources. With cancellation, the budget authority that covered the liabilities is no longer available. If these liabilities become payable, they will be paid from current year authority.

**Other Disclosures**

The objective of the Statement of Financing is to reconcile the difference between budgetary obligations and the net cost of operations reported. It is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Due to the Defense Threat Reduction Agency's financial system limitations, budgetary data is not in agreement with proprietary expense and assets capitalized. Differences between budgetary and proprietary data are a previously identified deficiency.



**Note Reference**

Note 1.A, Note 1.F, and Note 11 provide additional detail.



**Note 23.**

**Disclosures Related to the Statement of Custodial Activity**

Disclosures Related to the Statement of Custodial Activity:



**Note 24.A. Other Disclosures**

**1. ENTITY AS LESSEE-Operating Leases**

As of September 30		2003			2002	
(Amounts in thousands)						
B. Future Payments Due:	Fiscal Year	Land and Buildings	Equipment	Other	Total	Total
	2004	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	2005	0	0	0	0	0
	2006	0	0	0	0	0
	2007	0	0	0	0	0
	2008	0	0	0	0	0
	After 5 Years	0	0	0	0	0
	Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

**Fluctuations and Abnormalities:**

**Definitions**

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.





**Land and Buildings Leases consist of :**

**Description of Leases:**

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

**Equipment Leases consist of :**

**Description of Leases:**

- Description – \_\_\_\_\_
- Lease Period -- \_\_\_\_\_
- Lease Terms – \_\_\_\_\_
- Other Information – The majority of these leases are for equipment with a variety of lease Terms. Leases are not expected to be renewed upon expiration.

**Other Leases consist of :**

**Description of Leases:**

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



**Note 24.B. Other Disclosures**

Other Disclosures:

The Defense Threat Reduction Agency reports the following for FY 2003:

Military Labor Costs:

(In thousands)

Salaries	38,907
Benefits	<u>35,178</u>
<b>Total</b>	<b>74,085</b>

Total Military Assigned: 772

Officers	390
Enlisted	<u>382</u>
<b>Total</b>	<b>772</b>



**Note 24.C. Other Disclosures**

Disclosures for Transfers to Department of Homeland Security

Pursuant to the Program Budget Decision No. 725, budgetary resources totaling \$416,500 thousand were transferred from the Chemical Biological Defense Program to the Department of Homeland Security as of September 2003. The budgetary resources transferred were budget authority. The transfer is authorized per section 303(2) of Public Law 107-296.



**Note 24.D. Other Disclosures.**

Disclosure for Transfers from Department of Homeland Security

In August 2003, the Department of the Army transferred \$23,000 thousand in funds to DTRA in support of the Department of Homeland Security, Directorate of Science and Technology. The transfer was authorized pursuant to Title III of the Homeland Security Act of 2002, Public Law 107-296. The funds transferred from the Army to DTRA in support of the BioNet Defense Initiative (previous called Biological Defense Initiative - BDI). Obligations incurred for these funds as of September 30, 2003 were \$1,235 thousand.





**TAB D**

**SUPPORTING CONSOLIDATING/COMBINING STATEMENTS**



**Department of Defense  
 Defense Threat Reduction Agency  
 CONSOLIDATING BALANCE SHEET  
 As of September 30, 2003 and 2002  
 (\$ in Thousands)**

	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	\$ 1,980,943	\$ 1,357,203	\$ 8
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	52,262	947	0
Other Assets (Note 6)	0	6	0
Total Intragovernmental Assets	\$ 2,033,205	\$ 1,358,156	\$ 8
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	1,777	52	0
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	53,654	0	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	5	35,724	0
<b>TOTAL ASSETS</b>	<b>\$ 2,088,641</b>	<b>\$ 1,393,932</b>	<b>\$ 8</b>



Department of Defense  
 Defense Threat Reduction Agency  
**CONSOLIDATING BALANCE SHEET**  
 As of September 30, 2003 and 2002  
 (\$ in Thousands)

**ASSETS (Note 2)**

Intragovernmental:

Fund Balance with Treasury (Note 3)

	On Site Inspection Agency	Defense Special Weapons Agency	Combined Total
\$	38	\$ 83,342	\$ 3,421,534
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	4	2,064	55,277
Other Assets (Note 6)	0	0	6
<b>Total Intragovernmental Assets</b>	<b>42</b>	<b>\$ 85,406</b>	<b>\$ 3,476,817</b>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	0	1,065	2,894
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	265	39	53,958
Investments (Note 4)	0	0	0
Other Assets (Note 6)	0	0	35,729
<b>TOTAL ASSETS</b>	<b>307</b>	<b>\$ 86,510</b>	<b>\$ 3,569,398</b>



**Department of Defense  
 Defense Threat Reduction Agency  
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 (\$ in Thousands)**

	Eliminations	2003 Consolidated	2002 Consolidated
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	0	\$ 3,421,534	\$ 2,733,726
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	8	55,269	46,864
Other Assets (Note 6)	0	6	126
<b>Total Intragovernmental Assets</b>	<b>8</b>	<b>\$ 3,476,809</b>	<b>\$ 2,780,716</b>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	0	2,894	3,222
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	0	53,958	63,430
Investments (Note 4)	0	0	0
Other Assets (Note 6)	0	35,729	32,370
<b>TOTAL ASSETS</b>	<b>8</b>	<b>\$ 3,569,390</b>	<b>\$ 2,879,738</b>





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	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 22,835	\$ 6,883	\$ 0
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	1,308	5	0
Total Intragovernmental Liabilities	<u>\$ 24,143</u>	<u>\$ 6,888</u>	<u>\$ 0</u>
Accounts Payable (Note 12)	\$ 39,091	\$ 186,714	\$ 0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,913	0	0
Environmental Liabilities (Note 14)	1,536	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	5,876	10,581	0
Debt Held by Public	0	0	0
<b>TOTAL LIABILITIES</b>	<u>\$ 72,559</u>	<u>\$ 204,183</u>	<u>\$ 0</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	\$ 1,976,997	\$ 1,170,292	\$ 8
Cumulative Results of Operations	39,085	19,457	0
<b>TOTAL NET POSITION</b>	<u>\$ 2,016,082</u>	<u>\$ 1,189,749</u>	<u>\$ 8</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 2,088,641</u>	<u>\$ 1,393,932</u>	<u>\$ 8</u>



Department of Defense  
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	On Site Inspection Agency	Defense Special Weapons Agency	Combined Total
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	9	0	29,727
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	60	0	1,373
<b>Total Intragovernmental Liabilities</b>	<b>69</b>	<b>0</b>	<b>31,100</b>
Accounts Payable (Note 12)	0	14,021	239,826
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	139	0	2,052
Environmental Liabilities (Note 14)	0	0	1,536
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	9	1,353	17,819
Debt Held by Public	0	0	0
<b>TOTAL LIABILITIES</b>	<b>217</b>	<b>15,374</b>	<b>292,333</b>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	29	83,216	3,230,542
Cumulative Results of Operations	61	(12,080)	46,523
<b>TOTAL NET POSITION</b>	<b>90</b>	<b>71,136</b>	<b>3,277,065</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>307</b>	<b>86,510</b>	<b>3,569,398</b>



Department of Defense  
 Defense Threat Reduction Agency  
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 (\$ in Thousands)

	Eliminations	2003 Consolidated	2002 Consolidated
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 8	\$ 29,719	\$ 42,053
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	1,373	826
Total Intragovernmental Liabilities	\$ 8	\$ 31,092	\$ 42,879
Accounts Payable (Note 12)	\$ 0	\$ 239,826	\$ 31,171
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	2,052	2,409
Environmental Liabilities (Note 14)	0	1,536	1,896
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	17,819	17,599
Debt Held by Public	0	0	0
<b>TOTAL LIABILITIES</b>	\$ 8	\$ 292,325	\$ 95,954
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	0	3,230,542	3,920,324
Cumulative Results of Operations	0	46,523	(1,136,540)
<b>TOTAL NET POSITION</b>	\$ 0	\$ 3,277,065	\$ 2,783,784
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 8	\$ 3,569,390	\$ 2,879,738



**Department of Defense  
 Defense Threat Reduction Agency  
 CONSOLIDATING STATEMENT OF NET COST  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)**

Program Costs	Combined Total	Eliminations	2003 Consolidated
<b>A. Chemical Biological Defense Program</b>			
Intragovernmental Gross Costs	\$ 192,880	\$ 0	\$ 192,880
(Less: Intragovernmental Earned Revenue)	(1,097)	0	(1,097)
Intragovernmental Net Costs	\$ 191,783	\$ 0	\$ 191,783
Gross Costs With the Public	892,544	0	892,544
(Less: Earned Revenue From the Public)	0	0	0
Net Costs With the Public	\$ 892,544	\$ 0	\$ 892,544
Total Net Cost	\$ 1,084,327	\$ 0	\$ 1,084,327
<b>B. Defense Special Weapons Agency</b>			
Intragovernmental Gross Costs	\$ 9,931	\$ 0	\$ 9,931
(Less: Intragovernmental Earned Revenue)	(287)	0	(287)
Intragovernmental Net Costs	\$ 9,644	\$ 0	\$ 9,644
Gross Costs With the Public	(759)	0	(759)
(Less: Earned Revenue From the Public)	0	0	0
Net Costs With the Public	\$ (759)	\$ 0	\$ (759)
Total Net Cost	\$ 8,885	\$ 0	\$ 8,885
<b>C. Defense Technology Security Administration</b>			
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 0
(Less: Intragovernmental Earned Revenue)	0	0	0
Intragovernmental Net Costs	\$ 0	\$ 0	\$ 0
Gross Costs With the Public	48	0	48
(Less: Earned Revenue From the Public)	0	0	0
Net Costs With the Public	\$ 48	\$ 0	\$ 48
Total Net Cost	\$ 48	\$ 0	\$ 48





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2002 Consolidated

Program Costs	2002 Consolidated
<b>A. Chemical Biological Defense Program</b>	
Intragovernmental Gross Costs	\$ 190,042
(Less: Intragovernmental Earned Revenue)	0
Intragovernmental Net Costs	\$ 190,042
Gross Costs With the Public	670,059
(Less: Earned Revenue From the Public)	0
Net Costs With the Public	\$ 670,059
Total Net Cost	\$ 860,101
<b>B. Defense Special Weapons Agency</b>	
Intragovernmental Gross Costs	\$ 143
(Less: Intragovernmental Earned Revenue)	(486)
Intragovernmental Net Costs	\$ (343)
Gross Costs With the Public	39,564
(Less: Earned Revenue From the Public)	0
Net Costs With the Public	\$ 39,564
Total Net Cost	\$ 39,221
<b>C. Defense Technology Security Administration</b>	
Intragovernmental Gross Costs	\$ 9
(Less: Intragovernmental Earned Revenue)	0
Intragovernmental Net Costs	\$ 9
Gross Costs With the Public	3,402
(Less: Earned Revenue From the Public)	0
Net Costs With the Public	\$ 3,402
Total Net Cost	\$ 3,411



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	Combined Total	Eliminations	2003 Consolidated
<b>D. Defense Threat Reduction and Treaty Compliance Agency</b>			
Intragovernmental Gross Costs	\$ 52,250	\$ 0	\$ 52,250
(Less: Intragovernmental Earned Revenue)	(15,792)	0	(15,792)
Intragovernmental Net Costs	\$ 36,458	\$ 0	\$ 36,458
Gross Costs With the Public	1,129,715	0	1,129,715
(Less: Earned Revenue From the Public)	0	0	0
Net Costs With the Public	\$ 1,129,715	\$ 0	\$ 1,129,715
Total Net Cost	\$ 1,166,173	\$ 0	\$ 1,166,173
<b>E. On Site Inspection Agency</b>			
Intragovernmental Gross Costs	\$ 84	\$ 0	\$ 84
(Less: Intragovernmental Earned Revenue)	0	0	0
Intragovernmental Net Costs	\$ 84	\$ 0	\$ 84
Gross Costs With the Public	2,236	0	2,236
(Less: Earned Revenue From the Public)	1	0	1
Net Costs With the Public	\$ 2,237	\$ 0	\$ 2,237
Total Net Cost	\$ 2,321	\$ 0	\$ 2,321
<b>F. Total Program Costs</b>			
Intragovernmental Gross Costs	\$ 255,145	\$ 0	\$ 255,145
(Less: Intragovernmental Earned Revenue)	(17,176)	0	(17,176)
Intragovernmental Net Costs	\$ 237,969	\$ 0	\$ 237,969
Gross Costs With the Public	2,023,784	0	2,023,784
(Less: Earned Revenue From the Public)	1	0	1
Net Costs With the Public	\$ 2,023,785	\$ 0	\$ 2,023,785
Total Net Cost	\$ 2,261,754	\$ 0	\$ 2,261,754



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2002 Consolidated

<b>D. Defense Threat Reduction and Treaty Compliance Agency</b>	
Intragovernmental Gross Costs	\$ 245,149
(Less: Intragovernmental Earned Revenue)	(23,860)
Intragovernmental Net Costs	\$ 221,289
Gross Costs With the Public	860,984
(Less: Earned Revenue From the Public)	(290)
Net Costs With the Public	\$ 860,694
Total Net Cost	\$ 1,081,983
<b>E. On Site Inspection Agency</b>	
Intragovernmental Gross Costs	\$ 61
(Less: Intragovernmental Earned Revenue)	0
Intragovernmental Net Costs	\$ 61
Gross Costs With the Public	1,630
(Less: Earned Revenue From the Public)	0
Net Costs With the Public	\$ 1,630
Total Net Cost	\$ 1,691
<b>F. Total Program Costs</b>	
Intragovernmental Gross Costs	\$ 435,404
(Less: Intragovernmental Earned Revenue)	(24,346)
Intragovernmental Net Costs	\$ 411,058
Gross Costs With the Public	1,575,639
(Less: Earned Revenue From the Public)	(290)
Net Costs With the Public	\$ 1,575,349
Total Net Cost	\$ 1,986,407



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	Combined Total	Eliminations	2003 Consolidated
Cost Not Assigned to Programs	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0
<b>Net Cost of Operations</b>	<b>\$ 2,261,754</b>	<b>\$ 0</b>	<b>\$ 2,261,754</b>





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2002 Consolidated

Cost Not Assigned to Programs	0
(Less: Earned Revenue Not Attributable to Programs)	0
<b>Net Cost of Operations</b>	<b>1,986,407</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
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**(\$ in Thousands)**

	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
Beginning Balances	\$ (907,427)	\$ 24,447	\$ (2,893)
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	(907,427)	24,447	(2,893)
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	2,048,762	1,083,009	48
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	58,644	(3,701)	2,893
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	5,279	28	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	2,112,685	1,079,336	2,941
<b>Net Cost of Operations (+/-)</b>	1,166,173	1,084,327	48
<b>Ending Balances</b>	\$ 39,085	\$ 19,456	\$ 0



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CUMULATIVE RESULTS OF OPERATIONS	On Site Inspection Agency	Defense Special Weapons Agency	Combined Total
Beginning Balances	144	\$ (250,811)	\$ (1,136,540)
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	144	(250,811)	(1,136,540)
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	1,849	102,509	3,236,177
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	390	145,106	203,332
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	5,307
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<b>2,239</b>	<b>247,615</b>	<b>3,444,816</b>
<b>Net Cost of Operations (+/-)</b>	<b>2,321</b>	<b>8,885</b>	<b>2,261,754</b>
<b>Ending Balances</b>	<b>\$ 62</b>	<b>\$ (12,081)</b>	<b>\$ 46,522</b>



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**For the periods ended September 30, 2003 and 2002**  
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	Eliminations	2003 Consolidated	2002 Consolidated
<b>CUMULATIVE RESULTS OF OPERATIONS</b>			
Beginning Balances	0	\$ (1,136,540)	\$ (995,865)
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	0	(1,136,540)	(995,865)
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	0	3,236,177	1,872,475
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	203,332	(107,310)
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	5,307	80,567
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	0	3,444,816	1,845,732
<b>Net Cost of Operations (+/-)</b>	0	2,261,754	1,986,407
<b>Ending Balances</b>	0	\$ 46,522	\$ (1,136,540)





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**UNEXPENDED APPROPRIATIONS**

	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
Beginning Balances	\$ 2,449,680	\$ 977,185	\$ 520
Prior period adjustments (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<b>2,449,680</b>	<b>977,185</b>	<b>520</b>
<b>Budgetary Financing Sources:</b>			
Appropriations received	1,316,158	1,724,603	0
Appropriations transferred-in/out (+/-)	265,142	(413,454)	0
Other adjustments (rescissions, etc) (+/-)	(5,221)	(35,033)	(465)
Appropriations used	(2,048,762)	(1,083,009)	(48)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<b>(472,683)</b>	<b>193,107</b>	<b>(513)</b>
<b>Net Cost of Operations (+/-)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Ending Balances</b>	<b>\$ 1,976,997</b>	<b>\$ 1,170,292</b>	<b>\$ 7</b>



**Department of Defense  
 Defense Threat Reduction Agency  
 CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)**

	On Site Inspection Agency	Defense Special Weapons Agency	Combined Total
<b>UNEXPENDED APPROPRIATIONS</b>			
Beginning Balances	\$ 7,751	\$ 485,188	\$ 3,920,324
Prior period adjustments (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	7,751	485,188	3,920,324
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	2,338	3,043,099
Appropriations transferred-in/out (+/-)	0	(289,605)	(437,917)
Other adjustments (rescissions, etc) (+/-)	(5,873)	(12,196)	(58,788)
Appropriations used	(1,849)	(102,509)	(3,236,177)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	(7,722)	(401,972)	(689,783)
<b>Net Cost of Operations (+/-)</b>	0	0	0
<b>Ending Balances</b>	\$ 29	\$ 83,216	\$ 3,230,541



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**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

	Eliminations	2003 Consolidated	2002 Consolidated
<b>UNEXPENDED APPROPRIATIONS</b>			
Beginning Balances	\$ 0	\$ 3,920,324	\$ 3,663,625
Prior period adjustments (+/-)	0	0	0
<b>Beginning Balances, as adjusted</b>	<b>0</b>	<b>3,920,324</b>	<b>3,663,625</b>
<b>Budgetary Financing Sources:</b>			
Appropriations received	0	3,043,099	2,084,015
Appropriations transferred-in/out (+/-)	0	(437,917)	(27)
Other adjustments (rescissions, etc) (+/-)	0	(58,788)	45,187
Appropriations used	0	(3,236,177)	(1,872,475)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<b>0</b>	<b>(689,783)</b>	<b>256,700</b>
<b>Net Cost of Operations (+/-)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Ending Balances</b>	<b>\$ 0</b>	<b>\$ 3,230,541</b>	<b>\$ 3,920,325</b>



**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

**BUDGETARY FINANCING ACCOUNTS**  
**BUDGETARY RESOURCES**

	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
Budget Authority:			
Appropriations received	\$ 1,316,158	\$ 1,724,603	\$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	45,161	(425,761)	0
Other	0	0	0
Unobligated balance:			
Beginning of period	484,806	168,496	440
Net transfers, actual (+/-)	219,981	12,307	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	5,336	57	0
Receivable from Federal sources	10,972	1,040	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	16,078	9,000	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	32,386	10,097	0
Recoveries of prior year obligations	17,299	121,973	76
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(5,221)	(35,033)	(465)
<b>Total Budgetary Resources</b>	<b>\$ 2,110,570</b>	<b>\$ 1,576,682</b>	<b>\$ 51</b>





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 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>BUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations received	\$ 0	\$ 2,338	\$ 3,043,099
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	(380,600)
Other	0	0	0
Unobligated balance:			
Beginning of period	3,537	52,527	709,806
Net transfers, actual (+/-)	0	(289,605)	(57,317)
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	3,980	9,373
Receivable from Federal sources	(1)	(4,937)	7,074
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	(47)	(2,394)	22,637
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	(48)	(3,351)	39,084
Recoveries of prior year obligations	2,395	39,126	180,869
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(5,862)	(12,196)	(58,777)
<b>Total Budgetary Resources</b>	<b>\$ 22</b>	<b>\$ (211,161)</b>	<b>\$ 3,476,164</b>



Department of Defense  
 Defense Threat Reduction Agency  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

2002 Combined

<b>BUDGETARY FINANCING ACCOUNTS</b>	
<b>BUDGETARY RESOURCES</b>	
Budget Authority:	
Appropriations received	\$ 2,121,154
Borrowing authority	0
Contract authority	0
Net transfers (+/-)	0
Other	0
Unobligated balance:	
Beginning of period	858,768
Net transfers, actual (+/-)	(57,149)
Anticipated Transfers Balances	0
Spending authority from offsetting collections:	
Earned	0
Collected	6,364
Receivable from Federal sources	18,841
Change in unfilled customer orders	0
Advance received	4,911
Without advance from Federal sources	(5,124)
Anticipated for the rest of year, without advances	0
Transfers from trust funds	0
Subtotal	24,992
Recoveries of prior year obligations	<b>193,086</b>
Temporarily not available pursuant to Public Law	0
Permanently not available	<b>58,876</b>
<b>Total Budgetary Resources</b>	<b>\$ 3,199,727</b>



**Department of Defense  
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 COMBINING STATEMENT OF BUDGETARY RESOURCES  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)**

**STATUS OF BUDGETARY RESOURCES**

Obligations incurred:						
Direct	\$	1,474,394	\$	1,394,022	\$	48
Reimbursable		33,811		1,697		0
Subtotal		1,508,205		1,395,719		48
Unobligated balance:						
Apportioned		583,522		170,857		0
Exempt from apportionment		0		0		0
Other available		0		0		0
Unobligated Balances Not Available		18,843		10,106		3
<b>Total, Status of Budgetary Resources</b>	\$	2,110,570	\$	1,576,682	\$	51

**Relationship of Obligations to Outlays:**

Obligated Balance, Net - beginning of period	\$	1,069,444	\$	830,047	\$	81
Obligated Balance transferred, net (+/-)		0		0		0
Obligated Balance, Net - end of period:						
Accounts receivable		(54,119)		(1,082)		0
Unfilled customer order from Federal sources		(37,136)		(9,000)		0
Undelivered orders		1,415,156		990,894		5
Accounts payable		64,500		195,554		0
Outlays:						
Disbursements		1,144,900		917,387		48
Collections		(5,336)		(57)		0
Subtotal		1,139,564		917,330		48
Less: Offsetting receipts		0		0		0
<b>Net Outlays</b>	\$	1,139,564	\$	917,330	\$	48



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 (\$ in Thousands)**

	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations incurred:			
Direct	12	\$ (246,139)	\$ 2,622,337
Reimbursable	0	18	35,526
Subtotal	12	(246,121)	2,657,863
Unobligated balance:			
Apportioned	0	27,555	781,934
Exempt from apportionment	0	0	0
Other available	1	0	1
Unobligated Balances Not Available	9	7,405	36,366
<b>Total, Status of Budgetary Resources</b>	<b>22</b>	<b>\$ (211,161)</b>	<b>\$ 3,476,164</b>
<b>Relationship of Obligations to Outlays:</b>			
Obligated Balance, Net - beginning of period	3,803	\$ 334,947	\$ 2,238,322
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	(1,922)	(57,123)
Unfilled customer order from Federal sources	0	(296)	(46,432)
Undelivered orders	19	48,939	2,455,013
Accounts payable	10	1,661	261,725
Outlays:			
Disbursements	1,439	8,649	2,072,423
Collections	0	(3,980)	(9,373)
Subtotal	1,439	4,669	2,063,050
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<b>1,439</b>	<b>\$ 4,669</b>	<b>\$ 2,063,050</b>





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 (\$ in Thousands)

2002 Combined

**STATUS OF BUDGETARY RESOURCES**

Obligations incurred:	
Direct	\$ 2,471,124
Reimbursable	18,800
Subtotal	2,489,924
Unobligated balance:	
Apportioned	671,152
Exempt from apportionment	0
Other available	(1)
Unobligated Balances Not Available	38,652
<b>Total, Status of Budgetary Resources</b>	<b>\$ 3,199,727</b>

**Relationship of Obligations to Outlays:**

Obligated Balance, Net - beginning of period	\$ 1,918,705
Obligated Balance transferred, net (+/-)	0
Obligated Balance, Net - end of period:	
Accounts receivable	(50,049)
Unfilled customer order from Federal sources	(23,795)
Undelivered orders	2,252,250
Accounts payable	79,883
Outlays:	
Disbursements	1,943,535
Collections	(11,275)
Subtotal	1,932,260
Less: Offsetting receipts	0
<b>Net Outlays</b>	<b>\$ 1,932,260</b>



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**NONBUDGETARY FINANCING ACCOUNTS**  
**BUDGETARY RESOURCES**

	\$	0	0	0	0	0
	\$	0	0	0	0	0
	\$	0	0	0	0	0
Budget Authority:						
Appropriations received		0	0	0	0	0
Borrowing authority		0	0	0	0	0
Contract authority		0	0	0	0	0
Net transfers (+/-)		0	0	0	0	0
Other		0	0	0	0	0
Unobligated balance:						
Beginning of period		0	0	0	0	0
Net transfers, actual (+/-)		0	0	0	0	0
Anticipated Transfers Balances		0	0	0	0	0
Spending authority from offsetting collections:						
Earned		0	0	0	0	0
Collected		0	0	0	0	0
Receivable from Federal sources		0	0	0	0	0
Change in unfilled customer orders		0	0	0	0	0
Advance received		0	0	0	0	0
Without advance from Federal sources		0	0	0	0	0
Anticipated for the rest of year, without advances		0	0	0	0	0
Transfers from trust funds		0	0	0	0	0
Subtotal		0	0	0	0	0
Recoveries of prior year obligations		0	0	0	0	0
Temporarily not available pursuant to Public Law		0	0	0	0	0
Permanently not available		0	0	0	0	0
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



Department of Defense  
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 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>NONBUDGETARY FINANCING ACCOUNTS</b>			
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations received	\$ 0	\$ 0	\$ 0
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated balance:			
Beginning of period	0	0	0
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	0	0
Receivable from Federal sources	0	0	0
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	0	0
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	0	0	0
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
<b>Total Budgetary Resources</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>



Department of Defense  
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 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

2002 Combined

**NONBUDGETARY FINANCING ACCOUNTS**  
**BUDGETARY RESOURCES**

Budget Authority:	\$	0
Appropriations received		0
Borrowing authority		0
Contract authority		0
Net transfers (+/-)		0
Other		0
Unobligated balance:		
Beginning of period		0
Net transfers, actual (+/-)		0
Anticipated Transfers Balances		0
Spending authority from offsetting collections:		
Earned		0
Collected		0
Receivable from Federal sources		0
Change in unfilled customer orders		0
Advance received		0
Without advance from Federal sources		0
Anticipated for the rest of year, without advances		0
Transfers from trust funds		0
Subtotal		0
Recoveries of prior year obligations		0
Temporarily not available pursuant to Public Law		0
Permanently not available		0
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>0</b>





**Department of Defense**  
**Defense Threat Reduction Agency**  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
**For the periods ended September 30, 2003 and 2002**  
**(\$ in Thousands)**

STATUS OF BUDGETARY RESOURCES	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
Obligations incurred:			
Direct	0	0	0
Reimbursable	0	0	0
Subtotal	0	0	0
Unobligated balance:			
Apportioned	0	0	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	0	0	0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	0	0
Unfilled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	0	0	0
Subtotal	0	0	0
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>



Department of Defense  
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 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)

	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations incurred:			
Direct	0	\$	0
Reimbursable	0	0	0
Subtotal	0	0	0
Unobligated balance:			
Apportioned	0	0	0
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<b>0</b>	<b>\$ 0</b>	<b>0</b>
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	0	\$	0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	0	0	0
Unfiled customer order from Federal sources	0	0	0
Undelivered orders	0	0	0
Accounts payable	0	0	0
Outlays:			
Disbursements	0	0	0
Collections	0	0	0
Subtotal	0	0	0
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<b>0</b>	<b>\$ 0</b>	<b>0</b>



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 (\$ in Thousands)

2002 Combined

**STATUS OF BUDGETARY RESOURCES**

Obligations incurred:	
Direct	\$ 0
Reimbursable	0
Subtotal	0
Unobligated balance:	
Apportioned	0
Exempt from apportionment	0
Other available	0
Unobligated Balances Not Available	0
<b>Total, Status of Budgetary Resources</b>	<b>\$ 0</b>
Relationship of Obligations to Outlays:	
Obligated Balance, Net ? beginning of period	\$ 0
Obligated Balance transferred, net (+/-)	0
Obligated Balance, Net - end of period:	
Accounts receivable	0
Unfiled customer order from Federal sources	0
Undelivered orders	0
Accounts payable	0
Outlays:	
Disbursements	0
Collections	0
Subtotal	0
Less: Offsetting receipts	0
<b>Net Outlays</b>	<b>\$ 0</b>



**Department of Defense  
 Defense Threat Reduction Agency  
 COMBINING STATEMENT OF FINANCING  
 For the periods ended September 30, 2003 and 2002  
 (\$ in Thousands)**

	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated			
Obligations incurred	\$ 1,508,205	\$ 1,395,719	\$ 48
Less: Spending authority from offsetting collections and recoveries (-)	(49,685)	(132,071)	(76)
Obligations net of offsetting collections and recoveries	1,458,520	1,263,648	(28)
Less: Offsetting receipts (-)	0	0	0
Net obligations	1,458,520	1,263,648	(28)
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	5,279	28	0
Other (+/-)	0	0	0
Net other resources used to finance activities	5,279	28	0
<b>Total resources used to finance activities</b>	1,463,799	1,263,676	(28)





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	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated			
Obligations incurred	\$ 12	\$ (246,121)	\$ 2,657,863
Less: Spending authority from offsetting collections and recoveries (-)	(2,347)	(35,775)	(219,954)
Obligations net of offsetting collections and recoveries	(2,335)	(281,896)	2,437,909
Less: Offsetting receipts (-)	0	0	0
Net obligations	(2,335)	(281,896)	2,437,909
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	5,307
Other (+/-)	0	0	0
Net other resources used to finance activities	0	0	5,307
<b>Total resources used to finance activities</b>	<b>(2,335)</b>	<b>(281,896)</b>	<b>2,443,216</b>



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2002 Combined

<b>Resources Used to Finance Activities:</b>	
Budgetary Resources Obligated	
Obligations incurred	\$ 2,489,922
Less: Spending authority from offsetting collections and recoveries (-)	(218,079)
Obligations net of offsetting collections and recoveries	<u>2,271,843</u>
Less: Offsetting receipts (-)	0
Net obligations	<u>2,271,843</u>
Other Resources	
Donations and forfeitures of property	0
Transfers in/out without reimbursement (+/-)	0
Imputed financing from costs absorbed by others	80,567
Other (+/-)	0
Net other resources used to finance activities	<u>80,567</u>
<b>Total resources used to finance activities</b>	<u><b>2,352,410</b></u>



**Department of Defense  
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	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(324,573)	(189,451)	(2,501)
Undelivered Orders (-)	16,078	9,000	0
Unfilled Customer Orders	(660)	(403)	0
Resources that fund expenses recognized in prior periods	0	0	0
Budgetary offsetting collections and receipts that do not affect net cost of operations	(6,365)	0	0
Resources that finance the acquisition of assets			
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>(315,520)</b>	<b>(180,854)</b>	<b>(2,501)</b>
<b>Total resources used to finance the net cost of operations</b>	<b>1,148,279</b>	<b>1,082,822</b>	<b>(2,529)</b>



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	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	3,666	290,246	(222,613)
Unfilled Customer Orders	(47)	(2,394)	22,637
Resources that fund expenses recognized in prior periods	(66)	(1,135)	(2,264)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0	0
Resources that finance the acquisition of assets	0	0	(6,365)
Other resources or adjustments to net obligated resources that do not affect net cost of operations			
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the net cost of operations</b>	3,553	286,717	(208,605)
<b>Total resources used to finance the net cost of operations</b>	1,218	4,821	2,234,611





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2002 Combined

<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	
Undelivered Orders (-)	(400,673)
Unfilled Customer Orders	(213)
Resources that fund expenses recognized in prior periods	(5,129)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0
Resources that finance the acquisition of assets	0
Other resources or adjustments to net obligated resources that do not affect net cost of operations	
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	0
Other (+/-)	0
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>(406,015)</b>
<b>Total resources used to finance the net cost of operations</b>	<b>1,946,395</b>



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	Defense Threat Reduction and Treaty Compliance Agency	Chemical Biological Defense Program	Defense Technology Security Administration
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>			
Components Requiring or Generating Resources in Future Periods:			
Increase in annual leave liability	0	0	0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0
Other (+/-)	65	8,604	0
Total components of Net Cost of Operations that will require or generate resources in future periods	65	8,604	0
Components not Requiring or Generating Resources:			
Depreciation and amortization	(4,761)	0	0
Revaluation of assets or liabilities (+/-)	20,660	0	0
Other (+/-)	1,929	(7,101)	2,577
Total components of Net Cost of Operations that will not require or generate resources	17,828	(7,101)	2,577
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	17,893	1,503	2,577
<b>Net Cost of Operations</b>	1,166,172	1,084,325	48



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	On Site Inspection Agency	Defense Special Weapons Agency	2003 Combined
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>			
Components Requiring or Generating Resources in Future Periods:			
Increase in annual leave liability	0	0	0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0	0
Increase in exchange revenue receivable from the the public (-)	0	0	0
Other (+/-)	29	(127)	8,571
Total components of Net Cost of Operations that will require or generate resources in future periods	29	(127)	8,571
Components not Requiring or Generating Resources:			
Depreciation and amortization	880	40	(3,841)
Revaluation of assets or liabilities (+/-)	0	0	20,660
Other (+/-)	195	4,150	1,750
Total components of Net Cost of Operations that will not require or generate resources	1,075	4,190	18,569
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>1,104</b>	<b>4,063</b>	<b>27,140</b>
<b>Net Cost of Operations</b>	<b>2,322</b>	<b>8,884</b>	<b>2,261,751</b>



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**(\$ in Thousands)**

2002 Combined

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	
Components Requiring or Generating Resources in Future Periods:	
Increase in annual leave liability	0
Increase in environmental and disposal liability	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0
Increase in exchange revenue receivable from the the public (-)	0
Other (+/-)	534
<b>Total components of Net Cost of Operations that will require or generate resources in future periods</b>	<b>534</b>
<b>Components not Requiring or Generating Resources:</b>	
Depreciation and amortization	2,997
Revaluation of assets or liabilities (+/-)	0
Other (+/-)	36,482
<b>Total components of Net Cost of Operations that will not require or generate resources</b>	<b>39,479</b>
<b>Total components of not cost of operations that will not require or generate resources in the current period</b>	<b>40,013</b>
<b>Net Cost of Operations</b>	<b>1,986,408</b>





**TAB E**

**REQUIRED SUPPLEMENTAL STEWARDSHIP INFORMATION**



**INVESTMENTS IN RESEARCH AND DEVELOPMENT**

Yearly Investment in Research and Development  
For Fiscal Years (Preceding 4th Fiscal Year) through FY 2003  
(In Millions of Dollars)

( a ) <u>Categories</u>	( b ) <u>FY 99</u>	( c ) <u>FY 00</u>	( d ) <u>FY 01</u>	( e ) <u>FY 02</u>	( f ) <u>FY 03</u>
1. Basic Research	0.000	0.000	0.000	0.000	0.000
2. Applied Research	0.912	4.025	29.158	215.244	104.061
3. Development					
Advanced Technology Development	0.672	2.999	15.428	133.523	37.096
Demonstration and Validation	0.000	0.074	0.831	2.707	7.618
Engineering and Manufacturing Development	0.000	0.000	0.506	0.066	0.000
Research, Development, Test and Evaluation	0.062	0.023	2.037	6.507	5.371
Management Support					
Operational Systems Development	0.000	0.000	0.000	0.000	0.000
<b>Total</b>	<b>1.646</b>	<b>7.121</b>	<b>47.960</b>	<b>358.047</b>	<b>154.146</b>

Narrative Statement

See attached.



**DTRA – RSSI**  
**FY 03 4<sup>th</sup> Qtr**  
**Narrative Statement**

**Applied Research examples:**

Two outcomes from the applied research are:

Radiation Hardened Microelectronics: DTRA developed and demonstrated several radiation hardened prototype technologies. These technologies provide radiation hardening for up to 0.25 microns and initiated development of hardening for 0.15 micron technology.

Integrated Munitions Effects. DTRA developed a target-attack planning tool for existing theater-level planning capabilities to defeating or denying a wide variety of facilities and capabilities. This planning tool, the Integrated Munitions Effects Assessment (IMEA), integrates collateral effects predictive tools, Hazard Prediction and Assessment Capability (HPAC), for a variety of applications supporting Nuclear, Biological and Chemical (NBC) target attack planning to include NBC expulsion and dispersion resulting from attacks on WMD facilities as well as acts of terrorism and hostile use of WMD to provide targeting solutions using conventional weapons for a variety of structures and equipment. It includes a high-resolution weather prediction capability that provides timely data necessary for more detailed predictions. Upgrades to the initial IMEA capability include additional target types (including complex facilities), multiple weapon effects, additional platforms, more operator-friendly displays, more WMD material types, weather interfaces and sources, and more detailed weapon input parameters (such as angle of attack).

**Development examples:**

Two outcomes from the development and application of Weapon Effects Technologies to meet Weapons of Mass Destruction (WMD) and other special weapon effects challenges are:

Second Counterproliferation (CP2) Advanced Concept Technology Demonstration (ACTD): CP2 ACTD developed and demonstrated standoff attack capabilities against WMD facilities. Successfully completed operational demonstrated Tactical Tomahawk Penetrator Variant and Chemical Combat Assessment System. The military utility assessment is continuing.

SOF Support: Development and demonstration of various technologies resulted in the improved ability to provide warfighting capabilities to the Special Operations Forces (SOF) to defeat WMD.



**TAB F**

**REQUIRED SUPPLEMENTAL INFORMATION**





Required Supplemental Information - Part A

AT97 - Other Defense Organizations General Funds  
 Under Secretary of Defense (Acquisition, Technology, and Logistics)  
 DTRA - Defense Threat Reduction Agency

Schedule, Part A DoD Intra-governmental Asset Balances. (\$Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Department of Agriculture	12		\$70			
Department of Commerce	13		\$4,177			
Department of the Interior	14		\$2,596			
Department of Justice	15		\$166			
Navy General Fund	17		\$1,430			
Department of State	19		\$2,944			
Department of the Treasury	20	\$3,421,534	\$63			
Army General Fund	21		\$1,188			\$6
Central Intelligence Agency	56		\$1,024			
Air Force General Fund	57		\$27,761			
Department of Health and Human Services	75		\$153			
Department of Energy	89		\$431			
Other Defense Organizations General Funds	97		\$13,008			
Other Defense Organizations Working Capital Funds	97-4930		\$7			
Navy Working Capital Fund	97-4930.002		\$56			
Air Force Working Capital Fund	97-4930.003		\$187			
<b>Totals might not match reports.</b>	<b>Totals:</b>	<b>\$3,421,534</b>	<b>\$55,271</b>			<b>\$6</b>



**Required Supplemental Information - Part B**

**AT97 - Other Defense Organizations General Funds**  
**Under Secretary of Defense (Acquisition, Technology, and Logistics)**  
**DTRA - Defense Threat Reduction Agency**

Schedule, Part B DoD Intra-governmental entity liabilities.  (\$Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Labor	16			\$455
Navy General Fund	17	\$19,745		
Army General Fund	21	\$6,711		
Office of Personnel Management	24			\$918
Air Force General Fund	57	\$0		
Other Defense Organizations General Funds	97	\$3,044		
Other Defense Organizations Working Capital Funds	97-4930	\$80		
Army Working Capital Fund	97-4930.001	\$142		
Navy Working Capital Fund	97-4930.002	\$0		
Air Force Working Capital Fund	97-4930.003	\$0		
<b>Totals might not match reports.</b>	<b>Totals:</b>	<b>\$29,722</b>		<b>\$1,373</b>



## Required Supplemental Information - Part C

## AT97 - Other Defense Organizations General Funds

Under Secretary of Defense (Acquisition, Technology, and Logistics)

DTRA - Defense Threat Reduction Agency

Schedule, Part C DoD Intra-governmental revenue and related costs.  (\$Amounts in Thousands)	Treasury Index	Earned Revenue
Department of Agriculture	12	\$24
Department of Commerce	13	\$855
Department of the Interior	14	\$1,020
Department of Justice	15	\$118
Navy General Fund	17	\$487
Department of State	19	\$1,834
Army General Fund	21	\$567
Central Intelligence Agency	56	\$394
Air Force General Fund	57	\$6,478
Department of Transportation	69	\$2
Department of Health and Human Services	75	\$158
Department of Energy	89	\$196
US Army Corps of Engineers	96	\$57
Other Defense Organizations General Funds	97	\$4,934
Other Defense Organizations Working Capital Funds	97-4930	\$0
Navy Working Capital Fund	97-4930.002	\$22
Air Force Working Capital Fund	97-4930.003	\$30
<b>Totals might not match reports.</b>	<b>Totals:</b>	<b>\$17,176</b>

