

Unaudited Annual Financial Statements



Fiscal Year 2004

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NUCLEAR AND CHEMICAL
AND BIOLOGICAL DEFENSE
PROGRAMS

ASSISTANT TO THE SECRETARY OF DEFENSE
3050 DEFENSE PENTAGON
WASHINGTON, DC 20301-3050

NOV 12 2004

MEMORANDUM FOR ACCOUNTING AND FINANCE POLICY & ANALYSIS
DIRECTORATE
(ATTN: MR. DAVIS)

SUBJECT: Chemical and Biological Defense Program (CBDP) Financial Statements and
Management's Discussion and Analysis Statement for Fiscal Year (FY) 2004

Enclosed are the CBDP unaudited financial statements for FY04. These statements summarize the Program's financial activity for FY04, and include the Management Discussion and Analysis Statement that outlines the mission, performance, and financial condition of the organization.

Improving financial management and business processes remains a primary commitment and principal challenge within the CBDP. On December 18, 2003, the Under Secretary of Defense (Comptroller) directed that the CBDP prepare stand-alone financial statements for FY04. Subsequently, an independent certified public accounting firm completed an assessment of the CBDP financial management process in April 2004. The independent certified public accounting firm initiated an audit of the CBDP balance sheet in July 2004 and that audit is in progress. Emphasis on improved access to comprehensive transaction-level data, warehoused data, financial and feeder systems, and managerial accounting will enhance the CBDP financial exposure and posture for the future.

We recognize that executing the business plan for CBDP involves a complex arrangement of financial and program support services that present continuous and changing challenges. The CBDP is committed to improving its financial management and business processes for FY05 and the future.

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Joseph M. Palma, MD, MPH
Colonel, USAF, MC, SFS
Medical Director, Chemical/Biological
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Attachments:
As stated

TAB A

MANAGEMENT DISCUSSION AND ANALYSIS

CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM (CBDP)

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

FISCAL YEAR 2004

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This MD&A is prepared in accordance with the direction contained in OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, Section 11.1; FASAB Concept #3; and FASAB Standard #15. All required MD&A sections are identified in bold lettering above.

1.0 Mission and Organization

1.1 Mission

The Chemical Biological Defense Program (CBDP) is a joint program that can be characterized as a virtual program with its acquisition and funds management oversight anchored on the Defense Acquisition Executive (DAE), its operational requirements validation assigned to a Chairman's Controlled Activity under the J-8 of the Joint Staff, its Science and Technology management and funds management assigned to the Defense Threat Reduction Agency (DTRA), its Advanced Development and Procurement activities managed by an Army Joint Program Executive Officer, and a Test and Evaluation Executive Agent in Headquarters, Department of the Army.

To execute its mission, the CBDP receives two appropriations; Defense-wide Research Development Test & Evaluation (RDT&E) and Defense-wide Procurement. CBDP funds research to exploit leading edge technologies to ensure that U.S. forces are equipped with world-class capabilities to defend against chemical and biological (CB) threats. RDT&E funding includes a comprehensive science and technology base program to ensure continued advances in CB defense capabilities through the far-term as well as technologies in advanced development that provide leading edge tools to enhance CB defense capabilities for U.S. forces in all CB defense missions in the near-term. CBDP Procurement funds a variety of CB defense systems intended to provide U.S. forces with the best available equipment to survive, fight and win in CB contaminated environments.

The mission of the joint CBDP is to provide Chemical Biological (CB) defense capabilities to effectively execute the National Strategy for Combating Weapons of Mass Destruction. CBDP must ensure all capabilities are integrated and coordinated within the interagency community. CBDP has four corporate goals that provide direction for the development, acquisition, and fielding of CB equipment that meets warfighter requirements while reducing acquisition costs and time of development. The four goals are:

1. Develop CB defense capabilities to meet Joint Acquisition Objectives at reduced costs and on schedule.
2. Develop and support a science and technology base program that integrates Department of Defense (DoD) and other Federal Agency CB defense research efforts.
3. Oversee the DoD CB defense modeling and simulation efforts.
4. Improve DoD CB defense management practices – become a high performance organization.

1.2 Organization and Resources

Complying with the FY 1994 National Defense Authorization Act (P.L. 103-160, Section 1703), the DoD implemented a process to consolidate, coordinate, and integrate CB

defense requirements and programs of the Military Departments into a single DoD CB defense program. P.L. 103-160 was subsequently codified in FY 1997 as 50 U.S.C. 1522. CBDP was implemented through a Joint Service Agreement for ten years (FY 1994-FY 2004). During FY 2004 the department analyzed and then reassigned responsibilities for program management. The assignment of roles and responsibilities for CBDP program management above, was established by DAE memorandum dated April 22, 2003. CBDP will continue to operate under the guidance of this memorandum through FY 2005. These responsibilities will be institutionalized during FY 2006 through the update of applicable DOD directives and instructions; primarily, DOD Directive 5134.8, Assistant Secretary of Defense for Nuclear and Chemical and Biological Defense Programs (ATSD(NCB) and DOD Directive 5160.5, Responsibilities for Research, Development, and Acquisition of Chemical Weapons and Chemical and Biological Defense. The current organization is illustrated in the following figure.

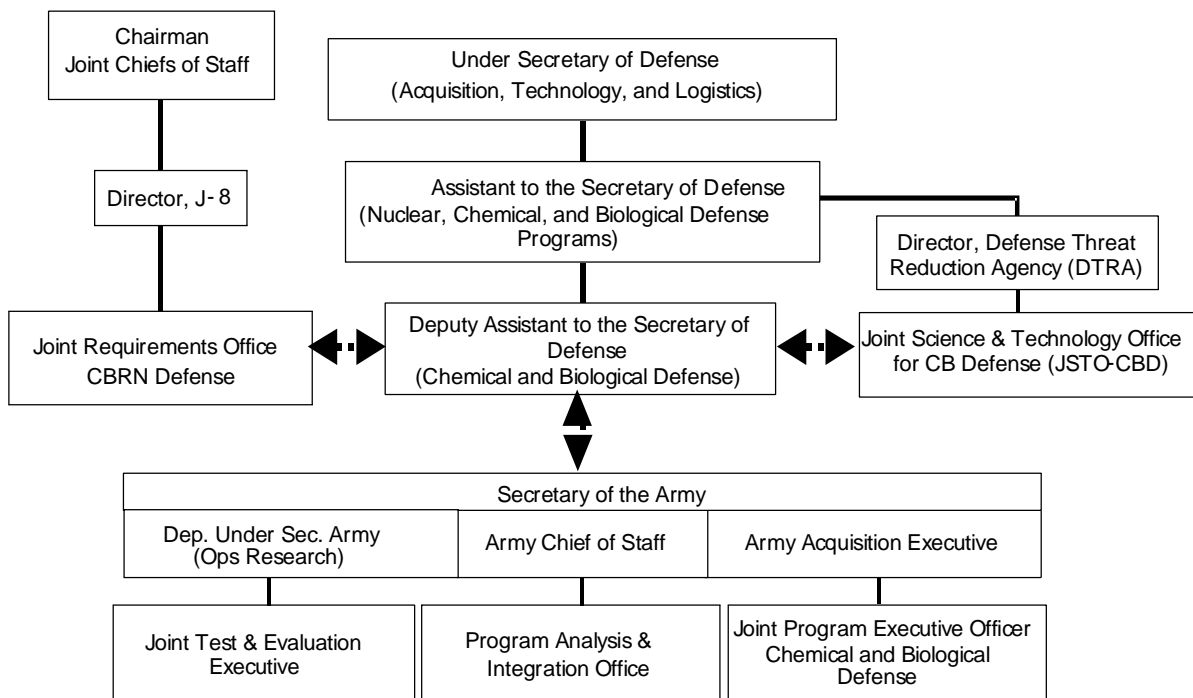


Figure 1. CBDP Management & Oversight Structure

CBDP serves, through its Research and Development, and Procurement functions, all 2.4 million of the DoD's military personnel in both their warfighting and Homeland Security tasks and missions. Additionally, with the establishment in FY 2002 of its Installation Force Protection program (named Guardian) at the direction of the Deputy Secretary of Defense, CBDP is funded to equip the first 200 of approximately 600 DOD installations with CB detection and warning and reporting capability for FY 2004-FY 2009. During FY 2005 CBDP will complete the equipping of 55, 22-person Weapons of Mass Destruction-Civil Support Teams (WMD-CST). These teams are organized in the National Guard (one per state

or federal territory) and exist to support their respective Governor in Consequence Management response for the civil populace, under Title 32 of the U.S. Code.

CBDP received Total Obligation Authority in FY 2004 of \$705.2 million in RDT&E and \$543.9 million in procurement funding for a total of \$1,249.1 million dollars. As of September 30, 2004, the CBDP had obligated \$1,084.1 million, or 87 percent, and expended \$343.1 million, or 28 percent, of the funding across both RDT&E and Procurement appropriations. The population served by CBDP program was addressed in the preceding paragraph. The major programs of the CBDP are executed by approximately 1,560 individuals across the Military Services and select Defense Agencies. This breaks out to a total of approximately 417 military and 1,143 civilians.

1.3 Location

The CBDP organization was summarized at the start of this section. Given its matrixed structure, its geographic location mirrors that of its operating elements. Hence, the joint requirements, joint test and evaluation, and Office of the Secretary of Defense oversight offices are in the Pentagon. The Joint Science and Technology Office in DTRA is located at Fort Belvoir, Virginia. The headquarters of the Joint Program Executive Office (JPEO) is located in Falls Church, Virginia, with 7 subordinate Joint Program Managers located across the country; San Diego, California; San Antonio, Texas; Quantico, Virginia; Naval Surface Warfare Center, Dahlgren, Virginia; Aberdeen Proving Ground, Maryland; Fort Detrick, Maryland; and the Guardian Program Manager is collocated with the JPEO in Falls Church, Virginia.

2.0 Performance Goals, Objectives, and Results

2.1 Strategies and Resources

In July 2003, the Joint Requirements Office for Chemical, Biological, Radiological and Nuclear (JRO-CBRN) Defense completed a CBRN Defense Baseline Capabilities Assessment. Prior assessments focused on systems rather than on capabilities. In order to validate the process, the initial baseline assessment focused on the traditional warfighter mission, or passive defense capabilities. Future assessments will establish a baseline for all DoD CBRN defense missions, including force protection, consequence management, and homeland security, while updating the assessment of passive defense capabilities. In addition, the baseline capability assessment establishes an integrated joint functional concept that supersedes the concepts of Avoid, Protect, and Decontaminate that are outlined in Joint Publication 3-11, Joint Operations in a Nuclear, Biological, and Chemical (NBC) Environment. Figure 2 defines the Joint CBRN defense joint functional concepts—Sense, Shape, Shield, and Sustain. The joint functional concepts represent an integrated network of capabilities to support the warfighter. No single system, technology, or approach is sufficient to defend against the spectrum of CBRN agents, delivery systems, and adversaries, which may use these weapons to counter U.S. superiority in conventional forces.

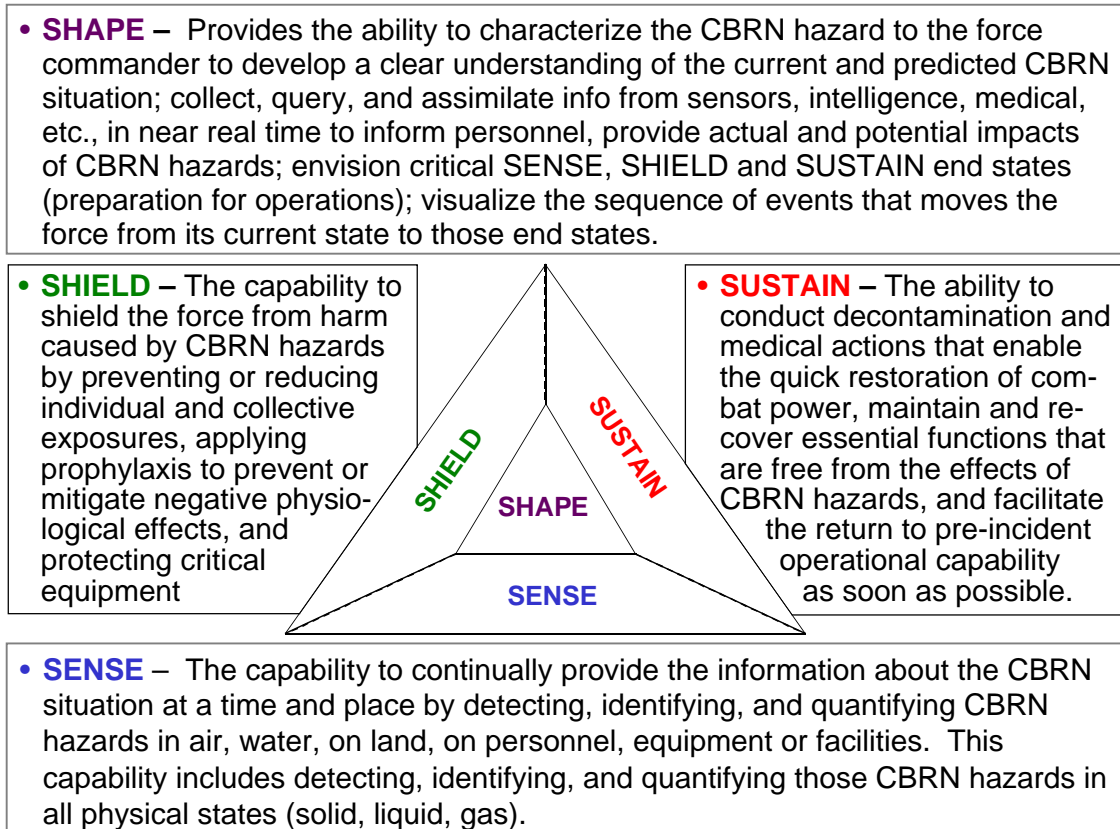


Figure 2. Joint CBRN Defense Joint Functional Concepts

Figure 3 identifies CBRN defense operational goals. Each operational goal is directly associated with one of the Joint Functional Concepts. In turn, specific projects and programs within advanced development and procurement are associated with one or more of the operational goals. A summary of the programs is provided in the following section.

Sense	Shape	Shield	Sustain
1. Point Detection (Chemical, Biological, and Radiological)	4. Integrated Early Warning	7. Respiratory and Ocular Protection	11. Individual Decontamination
2. Stand-off Detection	5. Battlespace Management	8. Percutaneous Protection	12. Equipment Decontamination
3. NBC Reconnaissance (Chemical, Biological, and Radiological)	6. Battlespace Analysis	9. Expeditionary Collective Protection	13. Fixed Site Decontamination
		10. Medical Prophylaxes	14. Medical Diagnostics
			15. Medical Therapeutics

Figure 3. CBRN Defense Operational Goals

2.2 Performance Assessments

DoD pursues an investment strategy that seeks to reduce overall program risk by balancing risk in each of the following areas.

- *Force management risk* results from issues affecting the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing its many operational tasks.
- *Operational risk* stems from factors shaping the ability to achieve military objectives in a near-term conflict or other contingency.
- *Future challenges risk* derives from issues affecting the ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid- to long-term military challenges.
- *Institutional risk* results from factors affecting the ability to develop management practices, processes, metrics, and controls that use resources efficiently and promote the effective operation of the Defense establishment.

In order to measure the performance of individual programs within the overall CBRN, programs are assessed to determine how each actually performed in comparison to the stated program targets. Analysis of program data is only part of the assessment process. The next step in the assessment is a comparison of the results of the data analysis against performance goals, operational goals, corporate goals, and the overall CBRNDP mission. Following are several assumptions and criteria that guide the assessment of programs.

- Operational goals are driven by and derived from Joint Function Concepts, hence the mission, goals, and operational concepts drive program development.
- Operational goals are supported by programs, rather than being driven by programs.
- All funded programs should support an operational goal. (The only exception is for supporting technologies, which are necessary for the development or execution of a program.)
- A program may support more than one operational goal.
- Multiple programs supporting the same operational goal can be evaluated to determine complementarities, synergies, or redundancies.
- Not all operational goals may be supported by a program. This may be the result of the development of a new mission or operational goal, or from the lack of an available technology.
- Programs that do not support an operational goal may not be demonstrated to support the program mission and may reflect an inappropriate use of resources.

2.3 Planned and Actual Performance

Following is a summary of key program activities in each of the operational capability areas—Sense, Shape, Shield, and Sustain. Detailed accomplishments on all CBDP programs are provided in the DoD CBDP Performance Plan, which is submitted annually with the President's Budget and posted on the internet at the Deputy Assistant to the Secretary of Defense for Chemical Biological Defense DATSD(CBD) web site: <http://www.acq.osd.mil/cp>.

2.3.1 Sense

Sense is one of the four Joint Chemical, Biological, Radiological, and Nuclear (CBRN) functional concepts. The Sense concept describes the capability to continually provide the information about the CBRN situation at a time and place by detecting, identifying, and quantifying CBRN hazards in air, water, on land, on personnel, equipment or facilities. This capability includes detecting, identifying, and quantifying those CBRN hazards in all physical states (i.e., solid, liquid, and gas). CBRN defense operational goals that are directly associated with the Sense Joint functional concept include the following: point detection (chemical, biological, and radiological); standoff detection (chemical, biological, and radiological); and Nuclear, Biological, and Chemical (NBC) Reconnaissance (chemical, biological, and radiological). Specific projects and programs within advanced development and procurement are associated with one or more of the operational goals.

Advanced development and procurement activities were conducted in FY 2004 on the following programs within the Sense functional concept:

Point Detection (Chemical, Biological, and Radiological):

- Joint Chemical Agent Detector (JCAD)
- Joint Biological Point Detection System (JBPDS)

Stand-off Detection (Chemical, Biological, and Radiological):

- Joint Service Lightweight Standoff Chemical Agent Detector (JSLSCAD)
- Artemis (Chemical Agent Standoff Detection System)
- Joint Biological Standoff Detection System (JBSDS)

NBC Reconnaissance (Chemical, Biological, and Radiological):

- NBC Reconnaissance Vehicle (NBCRV)
- Joint Lightweight NBC Reconnaissance System (JSLNBCRS) High Mobility Multipurpose Wheeled Vehicle/Light Armored Vehicle (HMMWV/LAV) variants

Major FY 2004 accomplishments of these programs within the Sense functional concept include the following:

Point Detection (Chemical, Biological, and Radiological):

- Completed hardware and software development of the JCAD.
- Completed advanced Biological Aerosol Warning System (BAWS) upgrade for JBPDS Low Rate Initial Production (LRIP) systems to meet Joint Operational Requirements Document (JORD) objective requirements for detection.

Stand-off Detection (Chemical, Biological, and Radiological):

- Supported the Styrker NBCRV Production Qualification Test and Limited User Test (LUT).

- Developed an active stand-off chamber fixture for testing the ARTEMIS system against chemical warfare simulants.
- Developed precise referee systems to support evaluation of the ARTEMIS system in an open air simulant test.
- Initiated development of next generation JBSDS system.

NBC Reconnaissance (Chemical, Biological, and Radiological):

- Transitioned NBCRV to procurement.
- Conducted Developmental Test (DT) I for LAV variant of the JSLNBCRS

2.3.2 Shape

Shape is one of the four Joint CBRN functional concepts. The Shape concept provides the capability to characterize the CBRN hazard to the joint force commander. CBRN hazard characterization is the process by which the joint force commander develops a clear understanding of the current and predicted CBRN situation; envisions critical contamination avoidance, protection, and restoration end states; and visualizes the sequence of events that moves the joint force from its current state to those end states. It manually and automatically collects and assimilates CBRN information from military forces, coalition allies, host nations, and private volunteer/non-governmental organization assets in near real time to inform personnel to take action and provides actual and potential impacts of CBRN hazards. CBRN defense operational goals that are directly associated with the Shape Joint functional concept including the following: integrated early warning; battlespace management; and battlespace analysis. Specific projects and programs within advanced development and procurement are associated with one or more of the operational goals.

Advanced development and procurement activities were conducted in FY 2004 on the following programs within the Shape functional concept:

Integrated Early Warning/Battlespace Management/Battlespace Analysis:

- Joint Warning and Reporting Network (JWARN) Block I, II, and III
- Joint Effects Model (JEM) Block I and II

Major FY 2004 accomplishments of these programs within the Shape functional concept include the following:

Integrated Early Warning/Battlespace Management/Battlespace Analysis:

- Integrated JWARN Initial Capability (JIC) with Command, Control, Communication, Computer, & Intelligence (C4I) Systems (JWARN Block II).
- Completed JIC component development.
- Planned for and initiated JWARN Block II Developmental Test/Operational Assessment (DT/OA).
- Developed a JWARN Communications Interface Device (JCID).
- Completed development of logistics/training plans and materials for JEM Block I.
- Completed Post Deployment Software Support (PDSS) plans.

- Conducted Milestone B for JEM Block I.
- Verified system interoperability requirements.
- Developed detailed Developmental and Operational test plans for JEM Block I.
- Initiated Government Developmental Testing for JEM Block I.

2.3.3 Shield

Shield is one of the four Joint CBRN functional concepts. The Shield concept describes the capability to shield the force from harm caused by CBRN hazards by preventing or reducing individual and collective exposures, applying prophylaxis to prevent or mitigate negative physiological effects, and protecting critical equipment. CBRN operational goals include respiratory and ocular protection, percutaneous protection, expeditionary collective protection, and medical prophylaxes. The projects and programs association with this operational goal are listed below.

Advanced development and procurement activities were conducted in FY 2004 on the following programs within the Shield functional concept:

Respiratory and Ocular Protection

- Joint Service Mask Leakage Tester
- Joint Service General Purpose Mask (JSPGM)
- Joint Service Aviation Mask (JSAM)

Percutaneous Protection

- Joint Service Lightweight Integrated Suit Technology (JSLIST)
- JSLIST Block II Glove Upgrade
- Joint Protective Aircrew Ensemble (JPACE)

Expeditionary Collective Protection

- Ship CPS Backfit (protective zones backfitted)
- Chemical Biological Protective Shelters (CBPS)
- Joint Collective Protection (CP) Equipment

Medical Prophylaxes

- Biological Defense Vaccines
 - Recombinant Botulinum Vaccine
 - Equine Encephalitis Vaccines
 - Plague Vaccine
 - Next Generation Anthrax Vaccine
- Improved Pyridostigmine Bromide and SERPACWA
- Active Topical Skin Protectant and CW Agent Prophylaxis:

2.3.4 Sustain

Sustain is one of the four Joint CBRN functional concepts. The Sustain concept describes the ability to conduct decontamination and medical actions that enable the quick restoration of combat power, maintain and recover essential functions that are free from the effects of CBRN hazards, and facilitate the return to pre-incident operational capability as soon as possible. CBRN operational goals include equipment decontamination, fixed site decontamination, medical diagnostics, and medical therapeutics. The projects and programs association with this operational goal are listed below.

Advanced development and procurement activities were conducted in FY 2004 on the following programs within the Sustain functional concept:

Equipment Decontamination

- M100 Sorbent Decon System
- Joint Service Family of Decontamination Systems (JSFDS)
- JSSEDS Block I
- JSSEDS Blocks II and III (JPID)

Fixed Site Decontamination

Current approach is being re-evaluated. Fixed site decontamination RDA efforts are being addressed through separate projects, including the Joint Service Man-Portable Decon. System, Joint Service Transportable Decon System, Joint Service Stationary Decon System, and the Joint Service Personnel/Skin Decontamination System.

Medical Diagnostics

- JBAIDS
 - JBAIDS BLK I

Medical Therapeutics

- Medical Chemical Therapeutics
 - Advanced Anticonvulsant
 - Antidote Treatment-Nerve Agent Autoinjector (ATNAA)
 - Improved Nerve Agent Treatment System (INATS)

2.3.5 Guardian Programs –Weapons of Mass Destruction–Civil Support Teams (WMD-CSTs) and the Installation Protection Program

The growing threat of the use of CB agents in acts of terrorism places DoD installations and personnel at a higher risk. With that in mind, the Guardian program provides DoD with the means to address the CB terrorist threat to DoD installations and personnel. It attempts to address the requirements identified in Presidential Decision Directive (PDD) 39 and PDD 62. Funding provides for the development of combating CB terrorism planning, training, and exercise technologies; and the sustainment of those technologies in the outyears, as appropriate.

The Guardian Program funds research, development, and acquisition (RDA) resources to successfully execute the Consequence Management (CM) RDA

program. WMD-CSTs and U.S. Army Reserve Reconnaissance and Decontamination assets receive the systems developed and procured under this program. CM funding provides for the development of the Unified Command Suite (UCS) and Analytical Laboratory System (ALS) Block upgrades. CM funding also provides for the modernization to meet the objective operational capabilities of the National Guard WMD-CSTs, the Reserve Component (RC) Reconnaissance, and RC Decontamination Teams. The funding provides for: (1) type-classified protection, detection, and training equipment; (2) development and fielding of upgraded analytical platforms for the detection, identification, and characterization of chemical, biological, and radiological agents used by terrorists in a civilian environment; (3); testing and evaluation to ensure that the systems fielded are safe and effective; and (4) program management funds.

The Force Protection - CB Installation Protection Program consists of an integrated CBRN installation protection and response capability. This capability includes detection, identification, warning, information management, individual and collective protection, restoration, and medical surveillance, protection and response. The communications network leverages existing capabilities and is integrated into the base operational command and control infrastructure. The program develops and procures the CBRN systems, Emergency Responder Equipment Sets, New Equipment Training (NET), Contractor Logistics Support, spares, and associated initial consumable items required to field an integrated installation protection capability planned for 200 DoD installations over the Future Years Defense Plan (FYDP).

2.4 Performance Trends

In fiscal year 2004, CDBP initially established its Balanced Scorecard concept and technique to collect measurable data and report accomplishments against specific targets. CDBP recognizes the need for and value of additional historical performance data on which to base future CDBP performance trends. Under the Balanced Scorecard processes now in place within the CDBP, performance measurement information can be captured in order to consistently identify and report performance targets and progress in future MD&As.

3.0 Financial Statement Analysis

As of September 30, 2004, the financial condition of CBDP 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:

The FY 2004 financial statements were produced by the Defense Finance and Accounting Service (DFAS). In prior years, the CBDP financial results were included in the financial statements of the Defense Threat Reduction Agency. In December 2003, the Under Secretary of Defense (Comptroller) directed that the CBDP prepare stand-alone financial statements for FY 2004.

CBDP's net assets were approximately \$1.43 billion as of September 30, 2004. This is an increase of \$34 million from September 30, 2003, and is mainly due to an increase in Other Assets caused by growing contract progress payments. The assets reported on CBDP's Balance Sheet are summarized in the accompanying table.

Asset Summary (in thousands)	FY 2004	FY 2003
Fund Balance with Treasury	\$1,373,798	\$1,357,203
Accounts Receivable, Net	169	948
Other Assets	54,274	35,724
Total Assets	\$1,428,242	\$1,393,933

Fund Balance with Treasury represents CBDP's largest asset. The balance accounts for 96% of CBDP's total assets. The balance increased approximately 1% between 2003 and 2004.

The value of Other Assets accounts for virtually all of the remaining 4% of CBDP's total assets. The increase of \$18.5 million is due to continued growth in the number and dollar volume of progress payments on procurement contracts. These contracts are for systems that have multiple applications for the detection, warning, and protection against biological and chemical agents.

For FY 2004, Accounts Receivable represents less than 1% of CBDP's total assets. The decrease from FY 2003 is partly attributable to a decrease in FY 2004 in the sales of anthrax vaccine to other government agencies.

CBDP's liabilities were \$52 million as of September 2004, a decrease of 74% from the previous year. The decrease is due in large part to the decrease in Accounts Payable. Other Liabilities are partly offset by a decrease in Accounts Payable. The liabilities are summarized in the following table.

Liability Summary (in thousands)	FY 2004	FY 2003
Accounts Payable	\$50,073	\$193,598
Other Liabilities	2,022	10,586
Total Liabilities	\$52,095	\$204,184

The decrease in Accounts Payable is mainly due to an accounting system coding error in FY 2003 that misclassified the purchase of protective suits as Accounts Payable prior to their receipt from the manufacturer, offset by an increase of reimbursements due to the Army for personnel services and administrative support at various CBDP sites.

The decrease in Other Liabilities is due to the FY 2003 Accounts Payable from cancelled appropriations that were reinstated at the end of FY 2003, and subsequently paid in FY 2004.

In FY 2004, CBDP's Cumulative Results of Operations was \$62.42 million, versus \$19.46 million in FY 2003. The \$43 million increase is mainly due the proper classification of expenditures related to the purchase and delivery of protective suits, which had been erroneously reported as purchased in FY 2003.

4.0 Systems, Controls, and Legal Compliance

The Chemical and Biological Defense Program (CBDP) senior management evaluated the system of internal accounting and administrative control, in effect during the fiscal year ending September 30, 2004, in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982."

The results of this evaluation indicated that the system of internal accounting and administrative control of the CBDP in effect during the fiscal year that ended September 30, 2004, taken as a whole, complies with the requirement to provide reasonable assurance that the following objectives were achieved.

- The obligations and costs are in compliance with applicable laws,
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation, and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The CBDP Annual Statement required under the Federal Manager's Financial Integrity Act of 1982 documented a previous material weakness that was corrected during Fiscal Year 2004. The source identifying the weakness was Department of Defense Inspector General (DoDIG), Project No. D2003AE-0060, "Acquisition of the Joint Chemical Agent Detector (JCAD)." The DoDIG Report identified inadequate management controls of the JCAD program. At the time of the audit, JCAD was an Acquisition Category III project with the Air Force as the designated lead service for materiel development.

Subsequently, the CBDP instituted appropriate and effective management control reviews by consolidating the Milestone Decision Authority and acquisition management of the entire CBDP into a joint program with a single Joint Program Executive Officer (JPEO). The JCAD system was assigned to a Joint Program Manager who reports to the JPEO. An extensive review of the cost, schedule, and performance of the JCAD program was conducted from July through November 2003 resulting in restructuring the program to correct the identified deficiencies. These corrective actions in the JCAD program have been deemed effective by the Office of the Secretary of Defense oversight office of the Joint CBDP.

5.0 Possible Future Effects of Important Existing, Known Demands, Risks, Events, Conditions or Trends

Given that the U.S. military possesses conventional superiority in most aspects of its warfighting capabilities, the United States is likely to be challenged by adversaries possessing a wide range of capabilities, including asymmetric means, such as Weapons of Mass Destruction (WMD). The mission of the CBDP is to provide chemical and biological defense capabilities to effectively execute the National Strategy for Combating WMD. The CBDP must execute its mission in a dynamic security environment that has a wide range of challenges and risks.

Furthermore, advances in biotechnology and in other areas of science also leave us vulnerable to the possibility that we will always be several steps behind a sophisticated adversary, who may vary his choice of threat agents faster than we can develop threat-specific responses. Therefore, the CBDP's capability-based approach will continue to focus on assessing known, emerging and future threats, investing in strategic technologies, and developing, characterizing, and sustaining the capabilities required for the range of U.S. military operational tempos and for asymmetrical threat risk mitigation.

In recognition of these challenges, the Department of Defense's Strategic Planning Guidance directed the development of funding options to reduce risk for the CBDP. The Department's ongoing Combating WMD Enhanced Planning Process (EPP) Study has assessed capability gaps identified in the Defense Baseline Capabilities Assessment and related infrastructure recapitalization for medical and non-medical laboratories and key WMD testing and evaluation (T&E) facilities. The results of the Combating WMD EPP Study could significantly enhance funding across Fiscal Years (FYs) 2006 – 2011 for the CBDP's approach to rapid technology development and recapitalization of test instrumentation and methodologies. The magnitude of the impact on the program's FYDP funding profile is likely to be on the order of a 50% increase to the overall profile, with the inclusion for the first time in the program's history of significant military construction funding. As of the time of this submission, the final decision by the Secretary of Defense on the Combating WMD EPP option is expected by the end of the first quarter of FY 2005.

6.0 Limitations of Financial Statements

In accordance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, we are disclosing the following limitations of CBDP'S FY2004 financial statement.

CBDP's financial statement has been prepared to report the financial position and results of operations of CBDP, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statement has been prepared from the books and records of CBDP in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statement is in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. At this time, CBDP is unable to implement all elements of the standards due to financial management systems limitations. DoD is in the process of implementing system improvements to address those limitations. The statements should be read with the understanding 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.

TAB B

PRINCIPAL STATEMENTS

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATED BALANCE SHEET

As of September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 1,373,798	\$ 1,357,203
Non-Entity Seized Iraqi Cash	0	0
Non-Entity-Other	0	0
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	169	948
Other Assets (Note 6)	1	6
Total Intragovernmental Assets	<u>\$ 1,373,968</u>	<u>\$ 1,358,157</u>
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0
Accounts Receivable (Note 5)	0	52
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	0	0
General Property, Plant and Equipment (Note 10)	0	0
Investments (Note 4)	0	0
Other Assets (Note 6)	54,274	35,724
TOTAL ASSETS	<u><u>\$ 1,428,242</u></u>	<u><u>\$ 1,393,933</u></u>
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 24,785	\$ 6,884
Debt (Note 13)	0	0
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	17	5
Total Intragovernmental Liabilities	<u>\$ 24,802</u>	<u>\$ 6,889</u>
Accounts Payable (Note 12)	\$ 25,290	\$ 186,714
Military Retirement Benefits and Other Employment-Related	0	0
Actuarial Liabilities (Note 17)		
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	2,004	10,581
Debt Held by Public	0	0
TOTAL LIABILITIES	<u><u>\$ 52,096</u></u>	<u><u>\$ 204,184</u></u>
NET POSITION		
Unexpended Appropriations (Note 18)	\$ 1,313,725	\$ 1,170,292
Cumulative Results of Operations	62,421	19,457
TOTAL NET POSITION	<u><u>\$ 1,376,146</u></u>	<u><u>\$ 1,189,749</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,428,242</u></u>	<u><u>\$ 1,393,933</u></u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
Program Costs		
Intragovernmental Gross Costs	\$ 374,902	\$ 192,879
(Less: Intragovernmental Earned Revenue)	(150)	(1,097)
Intragovernmental Net Costs	\$ 374,752	\$ 191,782
Gross Costs With the Public	715,191	892,544
(Less: Earned Revenue From the Public)	0	0
Net Costs With the Public	\$ 715,191	\$ 892,544
Total Net Cost	\$ 1,089,943	\$ 1,084,326
Cost Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	\$ 1,089,943	\$ 1,084,326

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 19,457	\$ 24,447
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	19,457	24,447
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	19,457	24,447
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	1,106,634	1,083,009
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	26,094	(3,701)
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	179	28
Other (+/-)	0	0
Total Financing Sources	1,132,907	1,079,336
Net Cost of Operations (+/-)	1,089,943	1,084,326
Ending Balances	\$ 62,421	\$ 19,457

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 1,170,292	\$ 977,185
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	1,170,292	977,185
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	1,170,292	977,185
Budgetary Financing Sources:		
Appropriations received	1,254,502	1,724,603
Appropriations transferred-in/out (+/-)	16,094	(413,454)
Other adjustments (rescissions, etc) (+/-)	(20,529)	(35,033)
Appropriations used	(1,106,634)	(1,083,009)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	143,433	193,107
Net Cost of Operations (+/-)		
Ending Balances	\$ 1,313,725	\$ 1,170,292

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations received	\$ 1,254,502	\$ 1,724,603
Borrowing authority	0	0
Contract authority	0	0
Net transfers (+/-)	1,000	(425,761)
Other	0	0
Unobligated balance:		
Beginning of period	180,963	168,495
Net transfers, actual (+/-)	15,094	12,307
Anticipated Transfers Balances	0	0
Spending authority from offsetting collections:		
Earned	0	0
Collected	1,251	57
Receivable from Federal sources	(1,102)	1,040
Change in unfilled customer orders	0	0
Advance received	0	0
Without advance from Federal sources	(4,439)	9,000
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	(4,290)	10,097
Recoveries of prior year obligations	136,727	121,974
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(20,528)	(35,033)
Total Budgetary Resources	\$ 1,563,468	\$ 1,576,682

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
STATUS OF BUDGETARY RESOURCES		
Obligations incurred:		
Direct	\$ 1,392,373	\$ 1,394,022
Reimbursable	4,976	1,697
Subtotal	1,397,349	1,395,719
Unobligated balance:		
Apportioned	155,925	170,857
Exempt from apportionment	0	0
Other available	(2)	0
Unobligated Balances Not Available	10,196	10,106
Total, Status of Budgetary Resources	\$ 1,563,468	\$ 1,576,682
Relationship of Obligations to Outlays:		
Obligated Balance, Net - beginning of period	\$ 1,176,366	\$ 830,047
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, Net - end of period:		
Accounts receivable	19	(1,082)
Unfilled customer order from Federal sources	(4,561)	(9,000)
Undelivered orders	1,153,184	990,894
Accounts payable	59,932	195,554
Outlays:		
Disbursements	1,233,954	917,387
Collections	(1,251)	(57)
Subtotal	1,232,703	917,330
Less: Offsetting receipts	0	0
Net Outlays	\$ 1,232,703	\$ 917,330

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
NONBUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES		
Budget Authority:		
Appropriations received	\$ 0	\$ 0
Borrowing authority	0	0
Contract authority	0	0
Net transfers (+/-)	0	0
Other	0	0
Unobligated balance:		
Beginning of period	0	0
Net transfers, actual (+/-)	0	0
Anticipated Transfers Balances	0	0
Spending authority from offsetting collections:		
Earned	0	0
Collected	0	0
Receivable from Federal sources	0	0
Change in unfilled customer orders	0	0
Advance received	0	0
Without advance from Federal sources	0	0
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	0	0
Recoveries of prior year obligations	0	0
Temporarily not available pursuant to Public Law	0	0
Permanently not available	0	0
Total Budgetary Resources	\$ 0	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
	<hr/>	<hr/>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred:		
Direct	\$ 0	\$ 0
Reimbursable	0	0
Subtotal	0	0
Unobligated balance:		
Apportioned	0	0
Exempt from apportionment	0	0
Other available	0	0
Unobligated Balances Not Available	0	0
Total, Status of Budgetary Resources	\$ 0	\$ 0
Relationship of Obligations to Outlays:		
Obligated Balance, Net ? beginning of period	\$ 0	\$ 0
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, Net - end of period:		
Accounts receivable	0	0
Unfilled customer order from Federal sources	0	0
Undelivered orders	0	0
Accounts payable	0	0
Outlays:		
Disbursements	0	0
Collections	0	0
Subtotal	0	0
Less: Offsetting receipts	0	0
Net Outlays	\$ 0	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 1,397,349	\$ 1,395,719
Less: Spending authority from offsetting collections and recoveries (-)	(132,438)	(132,071)
Obligations net of offsetting collections and recoveries	1,264,911	1,263,648
Less: Offsetting receipts (-)	0	0
Net obligations	1,264,911	1,263,648
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	179	29
Other (+/-)	0	0
Net other resources used to finance activities	179	29
Total resources used to finance activities	1,265,090	1,263,677
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered Orders (-)	(162,292)	(189,452)
Unfilled Customer Orders	(4,439)	9,000
Resources that fund expenses recognized in prior periods	(8,416)	(403)
Budgetary offsetting collections and receipts that do not affect net cost of operations	0	0
Resources that finance the acquisition of assets	0	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	0	0
Other (+/-)	0	0
Total resources used to finance items not part of the net cost of operations	(175,147)	(180,855)
Total resources used to finance the net cost of operations	1,089,943	1,082,822

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINED STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Combined	2003 Combined
	<hr/>	<hr/>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	0	0
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense (+/-)	0	0
Increase in exchange revenue receivable from the the public (-)	0	0
Other (+/-)	0	8,605
Total components of Net Cost of Operations that will require or generate resources in future periods	0	8,605
Components not Requiring or Generating Resources:		
Depreciation and amortization	0	0
Revaluation of assets or liabilities (+/-)	0	0
Other (+/-)		
Trust Fund Exchange Revenue	0	0
Cost of Goods Sold	0	0
Operating Material & Supplies Used	0	0
Other	0	(7,101)
Total components of Net Cost of Operations that will not require or generate resources	0	(7,101)
Total components of net cost of operations that will not require or generate resources in the current period	0	1,504
Net Cost of Operations	<hr/> <hr/> 1,089,943	<hr/> <hr/> 1,084,326

TAB C

NOTES TO THE PRINCIPAL STATEMENTS

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

On December 18, 2003, the Under Secretary of Defense (Comptroller) directed that separate stand alone financial statements be prepared for the Chemical and Biological Defense Program (CBDP).

These financial statements have been prepared to report the financial position and results of operations for the CBDP, 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 CBDP 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 CBDP is responsible except that information relative to classified assets, programs, and operations which have been excluded from the statements or otherwise aggregated and reported in such a manner that it is no longer classified. The CBDP's financial statements are in addition to the financial reports also prepared by the CBDP pursuant to OMB directives that are used to monitor and control the CBDP's use of budgetary resources.

The CBDP 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, used to capture and report its data, including nonfinancial feeder systems and processes. Reported values and information for the CBDP's major asset and liability categories are partially derived 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 CBDP can not currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The CBDP continues to implement process and system improvements addressing the limitation of the financial and nonfinancial feeder systems used to capture and report its data. A more detailed explanation of these financial statement elements is provided in the applicable notes.

1.B. Mission of the Reporting Entity

The CBDP's mission is to ensure that the U.S. military has the capability to operate effectively and decisively in the face of chemical, biological, radiological or nuclear (CBRN) threats in warfighter missions (passive defense, force protection, and consequence management) and homeland security missions.

In addition, the CBDP's mission is to advance national interest within the CBRN defense arena by working effectively with other federal agencies, state and local governments, Congress, and the private sector.

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 CBDP'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 CBDP'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 CBDP identifies its 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 fiscal year (FY) 2004, the financial management systems supporting the CBDP are unable to meet all of the requirements for full accrual accounting. Many of these 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 CBDP will undertake efforts to determine the actions required to assist in bringing the supporting financial and non-financial feeder systems and processes into compliance with all elements of Federal GAAP. Until such time as all of the CBDP's supporting financial and non-financial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the CBDP'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 and accounts payable. 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 a multiyear basis. When authorized, these

appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The CBDP 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 CBDP 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 and 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. The 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 GAAP. 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 CBDP's supporting 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. Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

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 CBDP, as a major program 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 CBDP as though the program was a stand-alone entity.

The CBDP'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 CBDP'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.

To prepare reliable financial statements, transactions occurring between entities within the DoD or between two or more federal agencies must be eliminated. For this reporting period, elimination adjustments were recorded to the CBDP accounts in accordance with normal operating provisions as outlined in the DoD Financial Management Regulation. In addition, the CBDP plans to implement policies and procedures as 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 CBDP'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 sites 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 appropriate Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Material disclosures are provided in note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed below in section 1.Y, 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

Not Applicable

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 can not be resolved by the agencies involved, it should be referred to the General Accounting Office. Material disclosures are provided in 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

Not Applicable

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

Not Applicable

1.R. Other Assets

The CBDP conducts business with commercial contractors under multiple types of contracts. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the CBDP provides financing payments.

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

1.V. Treaties for Use of Foreign Bases

Not Applicable

1.W. Comparative Data

In FY 2001, the CBDP began presenting the current and previous year's financial data for comparative purposes. This data was included as part of the Defense Threat Reduction Agency's 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 FY 2004. Financial statement fluctuations greater than 2 percent of total assets on the balance sheet and/or greater than 10 percent between FY 2004 and FY 2003 reporting periods are explained within the notes to the financial statements.

1.X. Unexpended Obligations

The CBDP 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.

1.Y. Problem Disbursements

Disclosures Related to Problem Disbursements, Negative Unliquidated Obligations, and In-transit Disbursements				
	September 2002 (\$ in thousands)	September 2003 (\$ in thousands)	September 2004 (\$ in thousands)	(Decrease)/Increase from 2003 to 2004 (\$ in thousands)
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	\$0	\$0	\$703	\$703
B. Negative Unliquidated Obligations	\$462	\$724	\$152	(\$572)
2. Total In-transit Disbursements, Net	\$22,150	\$15,477	\$16,303	\$826

Other Information Related to Problem Disbursements and In-transit Disbursements

Prior-year data for CBDP Absolute Unmatched Disbursements is not available. As of the First Quarter, FY 2004, CBDP became a separate reporting entity in regards to problem and in-transit disbursements. Prior to the First Quarter, FY 2004, CBDP's FY 1998 and prior funds were consolidated under the Missile

Defense Agency and the FY 1999 – FY 2004 funds were consolidated under the Defense Threat Reduction Agency for unmatched disbursements, negative unliquidated obligations, and in-transit disbursements.

Fluctuations

These problem disbursements represent the absolute value of the CBDP’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.

Absolute Unmatched Disbursements

For FY 2004, the CBDP has \$703 thousand (absolute value) in Unmatched Disbursements (UMDs). 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 CBDP has \$14 thousand in aged UMDs.

Negative Unliquidated Obligations

For FY 2004, the CBDP reported \$152 thousand in Negative Unliquidated Obligations (NULOs), which is a decrease of \$572 thousand since FY 2003. 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. An aging schedule is provided below. The NULO over 61 days is being researched for appropriate action.

Appropriation	0-30 Days	31-60 Days	61-120 Days	Total
97 01 0400 2601	\$0	\$2	\$0	\$2
97 03 0300 2601	\$0	\$0	\$6	\$6
97 03 0300 2605	\$77	\$47	\$0	\$124
97 03 0400 2605	\$3	\$0	\$0	\$3
97 04 0300 2601	\$17	\$0	\$0	\$17
Total	\$97	\$49	\$6	\$152

Total In-transit Disbursements, Net

For FY 2004, the CBDP reported \$16,303 thousand (net) in in-transit disbursements, which is an increase of \$826 thousand since FY 2003. The in-transits represent the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system. The CBDP has \$781 thousand in aged in-transits.

Note 2. Nonentity Assets

As of September 30	2004	2003
(Amounts in thousands)		
1. Intra-governmental Assets		
A. Fund Balance with Treasury	\$ 0	\$ 0
B. Investments	0	0
C. Accounts Receivable	0	0
D. Other Assets	0	0
E. Total Intra-governmental Assets	\$ 0	\$ 0
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	\$ 0	\$ 0
B. Accounts Receivable	0	0
C. Loans Receivable	0	0
D. Inventory & Related Property	0	0
E. General PP&E	0	0
F. Investments	0	0
G. Other Assets	0	0
H. Total Non-Federal Assets	\$ 0	\$ 0
3. Total Non-Entity Assets	\$ 0	\$ 0
4. Total Entity Assets	\$ 1,428,242	\$ 1,393,933
5. Total Assets	\$ 1,428,242	\$ 1,393,933

Definition

Asset accounts are categorized either as entity or non-entity. 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. Non-entity accounts are assets that are held by an entity, but are not available for use in the operations of the entity.

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

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

Note 3.A. Fund Balance with Treasury

As of September 30	2004	2003
(Amounts in thousands)		
1. Fund Balances		
A. Appropriated Funds	\$ 1,373,798	\$ 1,357,203
B. Revolving Funds	0	0
C. Trust Funds	0	0
D. Other Fund Types	0	0
E. Total Fund Balances	\$ 1,373,798	\$ 1,357,203
2. Fund Balances Per Treasury Versus Agency		
A. Fund Balance per Treasury	\$ 0	\$ 0
B. Fund Balance per	1,373,798	1,357,203
3. Reconciling Amount	\$ (1,373,798)	\$ (1,357,203)

Definition

Currently, the Department of Treasury reports fund balances at the appropriation basic symbol level. The Other Defense Organizations (ODO) general funds Treasury Index 97 funds are allotted at limit level. Due to the current systems in place, the reconciliation of the Fund Balance with Treasury account at the limit level between the Chemical and Biological Defense Program (CBDP) and the ODO general fund presents a challenge.

Note References

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 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 3.B.	Disclosures Related to Suspense/Budget Clearing Accounts
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As of September 30	September 2002	September 2003	September 2004	(Decrease)/ Increase from FY 2003 - 2004
(Amounts in thousands)				
<u>Account</u>				
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
Total	\$ 0	\$ 0	\$ 0	0

The CBDP has no disclosures related to suspense/budget clearing accounts for FY 2004. Suspense/Budget Clearing Accounts are reported at the Department level.

Note 4. Investments

As of September 30	2004					2003
	Cost	Amorti- zation Method	Amortized (Premium/ Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in thousands)						
1. Intra-governmental Securities:						
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
F. Total Intragovernmental Securities	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
2. Other Investments:	\$ 0		0	0	N/A	\$ 0

3. Other Information:

The Chemical and Biological Defense Program has no investments to report.

Note 5. Accounts Receivable

As of September 30	2004			2003
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	\$ 169	N/A	\$ 169	\$ 948
2. Non-Federal Receivables (From the Public):	\$ 0	\$ 0	\$ 0	\$ 52
3. Total Accounts Receivable:	\$ 169	\$ 0	\$ 169	\$ 1,000

4. Allowance method:

5. Other information:

Fluctuations and/or Abnormalities

Fluctuations

The decrease of \$779 thousand in intragovernmental receivables is primarily attributable to collections from the Department of State, Federal Bureau of Investigation, and the Food and Drug Administration. The reduction in receivables involved transactions for anthrax vaccines and antibodies.

The decrease of \$52 thousand in non-federal receivables is attributable to refunds collected from the public for contract overpayments.

Information Related to Accounts Receivable

Allowance Method

The Chemical and Biological Defense Program's (CBDP) analysis of current non-Federal accounts receivable determined that all non-Federal accounts receivable were collectible. Therefore, an allowance for doubtful accounts was not established for the CBDP.

Allocation of Undistributed Collections

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

Elimination Adjustments

Some accounting systems used to support the CBDP capture trading partner data at the transaction level for transactions generated by the CBDP. However, the accounting systems do not capture this information in a manner that facilitates trading partner aggregations (meaning the systems do not interface with other activities' systems to reach in and gather the corresponding side of the CBDP's transaction). As a result, the CBDP was unable to fully reconcile intragovernmental accounts receivable to the related intragovernmental accounts 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.

Note Reference

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

For further discussion on accounts receivable, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007.

Note 6. Other Assets

As of September 30 (Amounts in thousands)	2004	2003
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	\$ 1	\$ 6
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 1	\$ 6
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	54,273	35,724
C. Total Non-Federal Other Assets	\$ 54,273	\$ 35,724
3. Total Other Assets:	\$ 54,274	\$ 35,730

4. Other Information Related to Other Assets:

Fluctuations and/or Abnormalities

Fluctuations

The decrease of \$5 thousand in intragovernmental other assets is attributable to the decrease in advances with the Army.

The increase of \$18,549 thousand in non-federal other assets is attributable to progress payments for electronic systems and parts related to joint programs to detect and warn against biological and chemical agents. See discussion, below.

Composition of Non-Federal Other Assets

Non-federal other assets are progress payments that were made primarily by the Department of the Army (Department) to private contractors as part of the Chemical and Biological Defense Program. The Department's accounting offices make progress payments to private contractors based upon methods other than a percentage of completed work, such as costs incurred. The progress payments were made primarily for electronic systems that have multiple applications by the Military Departments for the detection and warning of biological and chemical agents.

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	2004	2003
(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:

The Chemical and Biological Defense Program has no cash or other monetary assets to report.

Note 8. A.	Direct Loan and/or Loan Guarantee Programs
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- 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	2004		2003	
(Amounts in thousands)				
Loan Programs				
1. Military Housing Privatization Initiative:				
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
2. Armament Retooling & Manufacturing Support Initiative:				
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
3. Total Loans Receivable:	\$	0	\$	0

4. Other Information:

Note 8.C. Total Amount of Direct Loans Disbursed

As of September 30

(Amounts in thousands)

	2004	2003
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:

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

As of September 30					
(Amounts in thousands)					
2004	Interest Differential	Defaults	Fees	Other	Total
1. Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	Interest Differential	Defaults	Fees	Other	Total
2. Subsidy Expense for New Direct Loans Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Direct Loan Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0

Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
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	2004	2003
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5. Total Direct Loan Subsidy Expense:

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	2004	2003
(Amounts in thousands)		
1. Beginning Balance of the Subsidy Cost Allowance	\$ 0	\$ 0
2. Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
A. Interest Rate Differential Costs	\$ 0	\$ 0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
E. Total of the above Subsidy Expense Components	\$ 0	\$ 0
3. Adjustments		
A. Loan Modifications	\$ 0	\$ 0
B. Fees Received	0	0
C. Foreclosed Property Acquired	0	0
D. Loans Written Off	0	0
E. Subsidy Allowance Amortization	0	0
F. Other	0	0
G. Total of the above Adjustment Components	\$ 0	\$ 0
4. Ending Balance of the Subsidy Cost Allowance before Re-estimates	\$ 0	\$ 0
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	\$ 0	\$ 0
B. Technical/default Re-estimate	0	0
C. Total of the above Re-estimate Components	\$ 0	\$ 0
6. Ending Balance of the Subsidy Cost Allowance	\$ 0	\$ 0

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

As of September 30	2004	2003
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(Amounts in thousands)

Loan Guarantee Program(s)

1. Military Housing Privatization Initiative:

A. Defaulted Guaranteed 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 Defaulted Guaranteed Loans Receivable	\$	0	\$	0

2. Armament Retooling & Manufacturing Support Initiative

A. Defaulted Guaranteed 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 Defaulted Guaranteed Loans Receivable	\$	0	\$	0

3. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable

	\$	0	\$	0
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4. Other Information:

Note 8.H.	Guaranteed Loans Outstanding
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As of September 30	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding:		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$ 0	\$ 0
3. Total	\$ 0	\$ 0
2004		
New Guaranteed Loans Disbursed:		
1. Military Housing Privatization Initiative	\$ 0	\$ 0
2. Armament Retooling & Manufacturing Support Initiative	\$ 0	\$ 0
3. Total	\$ 0	\$ 0
2003		
New Guaranteed Loans Disbursed:		
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		
(Amounts in thousands)	2004	2003
Loan Guarantee Program Title		
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)					
2004	Interest Differential	Defaults	Fees	Other	Total
1. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	Interest Differential	Defaults	Fees	Other	Total
2. Subsidy Expense for New Loan Guarantees Disbursed:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2004	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
3. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total
4. Loan Guarantee Modifications and Reestimates:					
Military Housing Privatization Initiative	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0	0	0	0

Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
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	2004	2003
5. Total Loan Guarantee Subsidy Expense:		
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
Loan Guarantees:					
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	
Beginning Balance, Changes and Ending Balance	2004	2003
(Amounts in thousands)		
1. Beginning Balance of the Loan Guarantee Liability	0	0
2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
A. Interest Supplement Costs	0	0
B. Default Costs (Net of Recoveries)	0	0
C. Fees and Other Collections	0	0
D. Other Subsidy Costs	0	0
E. Total of the above Subsidy Expense Components	0	0
3. Adjustments		
A. Loan Guarantee Modifications	0	0
B. Fees Received	0	0
C. Interest Supplements Paid	0	0
D. Foreclosed Property and Loans Acquired	0	0
E. Claim Payments to Lenders	0	0
F. Interest Accumulation on the Liability Balance	0	0
G. Other	0	0
H. Total of the above Adjustments	0	\$ 0
4. Ending Balance of the Loan Guarantee Liability before Re-estimates	\$ 0	\$ 0
5. Add or Subtract Subsidy Re-estimates by Component		
A. Interest Rate Re-estimate	0	0
B. Technical/default Re-estimate	0	0
C. Total of the above Re-estimate Components	\$ 0	\$ 0
6. Ending Balance of the Loan Guarantee Liability	\$ 0	\$ 0
7. Other Information:		

Note 8.M. Administrative Expense

As of September 30		
	2004	2003
(Amounts in thousands)		
1. Direct Loans:		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	<u>\$ 0</u>	<u>\$ 0</u>
2. Loan Guarantees:		
Military Housing Privatization Initiative	\$ 0	\$ 0
Armament Retooling & Manufacturing Support Initiative	0	0
Total	<u>\$ 0</u>	<u>\$ 0</u>

3. Other Information:

Note 9. Inventory and Related Property

As of September 30

2004

2003

(Amounts in thousands)

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	<u>\$ 0</u>	<u>\$ 0</u>

Note 9.A.**Inventory, Net**

As of September 30	2004			2003	Valuation Method
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	
(Amounts in thousands)					
1. Inventory Categories:					
A. Available and Purchased for Resale	\$ 0	\$ 0	0	\$ 0	
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Raw Materials	0	0	0	0	
E. Work in Process	0	0	0	0	
F. Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>	<u>\$ 0</u>	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses
 NRV = Net Realizable Value
 O = Other

SP = Standard Price

AC = Actual Cost

2. Restrictions of Inventory Use, Sale, or Disposition:**3. Other Information:**

The Chemical and Biological Defense Program (CBDP) has no inventory to report.

Note 9.B. Operating Materials and Supplies, Net

As of September 30	2004			2003		Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net		
(Amounts in thousands)						
1. OM&S Categories:						
A. Held for Use	\$ 0	\$ 0	\$ 0	\$ 0	0	
B. Held for Repair	0	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	0	
D. Total	\$ 0	\$ 0	\$ 0	\$ 0	0	

Legend for Valuation Methods:

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

2. Restrictions on OM&S:

3. Other Information:

The CBDP has no operating materials and supplies to report.

Note 9.C.		Stockpile Materials, Net				
As of September 30		2004		2003		Valuation Method
		Stockpile Materials Amount	Allowance for Gains (Losses)	Stockpile Materials, Net	Stockpile Materials, Net	
(Amounts in thousands)						
1. Stockpile Materials Categories:						
A. Held for Sale		\$	\$	0	\$	0
B. Held in Reserve for Future Sale				0		0
C. Total		\$	\$	0	\$	0

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	2004					2003
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)						
1. Major Asset Classes:						
A. Land	N/A	N/A	\$ 0	N/A	\$ 0	\$ 0
B. Buildings, Structures, and Facilities	S/L	20 Or 40	0	\$ 0	0	0
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	2-5 Or 10	0	0	0	0
E. General Equipment	S/L	5 or 10	0	0	0	0
F. Military Equipment	S/L	Various	0	0	0	0
G. Assets Under Capital Lease ¹	S/L	lease term	0	0	0	0
H. Construction-in- Progress	N/A	N/A	0	N/A	0	0
I. Other			0	0	0	0
J. Total General PP&E			\$ 0	\$ 0	\$ 0	\$ 0

¹ Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

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

2. Other Information:

The Chemical and Biological Defense Program (CBDP) has no general property, plant and equipment to report.

Note 10.A. Assets Under Capital Lease

As of September 30	2004	2003
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	0	0
C. Other	0	0
D. Accumulated Amortization	0	0
E. Total Capital Leases	<u>\$ 0</u>	<u>\$ 0</u>

2. Description of Lease Arrangements:**3. Other Information:**

The CBDP has no Assets under Capital Lease to report.

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

As of September 30	2004	2003
(Amounts in thousands)		
1. Intra-governmental Liabilities		
A. Accounts Payable	\$ 0	\$ 0
B. Debt	0	0
C. Environmental Liabilities	0	0
D. Other	0	0
E. Total Intra-governmental Liabilities	\$ 0	\$ 0
2. Non-Federal Liabilities		
A. Accounts Payable	\$ (95)	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	0
C. Environmental Liabilities	0	0
D. Loan Guarantee Liability	0	0
E. Debt Held by Public	0	0
F. Other Liabilities	391	8,712
G. Total Non-Federal Liabilities	\$ 296	\$ 8,712
3. Total Liabilities Not Covered by Budgetary Resources	\$ 296	\$ 8,712
4. Total Liabilities Covered by Budgetary Resources	\$ 51,800	\$ 195,472
5. Total Liabilities	\$ 52,096	\$ 204,184

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

Abnormalities

The decrease of \$95 thousand in accounts payable is attributable to a change in reporting methodology. Prior to the Third Quarter, FY 2004, non-Federal Accounts Payable—Canceled Appropriations were included in Other Liabilities reported on line 2.F. To bring the financial statements into conformity with U.S. Department of Treasury guidance, Accounts Payable – Canceled Appropriations were moved to line 2.A., Accounts Payable.

The abnormal balance of \$95 thousand is attributable to the abnormal undistributed amount calculated by comparing the Treasury reported disbursements to the field reported disbursements for the Fourth Quarter, FY 2004. This abnormal undistributed amount for accounts payable is classified as canceled accounts payable due to this entity closed September 30, 2004. The CBDP will continue with collection activities to eliminate this abnormal canceled accounts payable; all collections will go directly to Treasury.

Fluctuations

The decrease of \$8,321 thousand in other liabilities is attributable to the elimination of accounts payable from canceled appropriations that were reported in FY 2003.

Note References

For additional line item discussion, see:

Note 12, Accounts Payable

Note 15, Other Liabilities

Note 12. Accounts Payable

As of September 30						
		2004			2003	
		Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total	
(Amounts in thousands)						
1. Intra-governmental Payables:	\$	24,785	N/A	\$ 24,785	\$	6,884
2. Non-Federal Payables (to the Public):	\$	25,290	\$ 0	\$ 25,290	\$	186,714
3. Total	\$	50,075	\$ 0	\$ 50,075	\$	193,598

4. Other Information:

Definitions

Intragovernmental accounts payable consist 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.

Fluctuations and/or Abnormalities

Fluctuations

The increase of \$17,901 thousand in intragovernmental accounts payable is primarily attributable to reimbursements due to the Army General Fund for personnel service and administrative support to CBDP.

The \$161,424 thousand decrease in non-federal payables (to the public) is largely attributable to the execution of the funds and system coding corrections involving the purchase and delivery of chemical protective suits for the Military Departments. The CBDP received approximately \$225 million from a congressional supplement in May 2003 for the purchase of the chemical protective suits. As a result of the late receipt in FY 2003, those funds were being executed during FY 2003 and FY 2004. Additionally, due to accounting system coding errors, funds were misclassified in FY 2003 as non-Federal payables before the protective suits were delivered. System coding corrections, as well as, funds execution resulted in the net decrease in the payables for FY 2004.

Information Related to Accounts Payable

The CBDP's accounts payables were adjusted based on a comparison between the CBDP's accounts payable and the Department of Defense (DoD) summary level seller accounts receivable. Under the provisions of the DoD Financial Management Regulation, Volume 6B, Chapter 13, the seller-side rule prevailed and CBDP's accounts payables were adjusted to agree with the seller-side accounts receivables.

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

Some accounting systems used to support the CBDP capture trading partner data at the transaction level for transactions generated by the CBDP. However, some of the accounting systems do not capture this information in a manner that facilitates trading partner aggregations (meaning the systems do not interface with other activities' systems to reach in and gather the corresponding side of the CBDP's transaction). As a result, the CBDP 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 such reconciliations can not be accomplished with the existing or foreseeable resources.

Note Reference

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

For regulatory discussion on accounts payable, see DoD FMR, Volume 6B, Chapter 10, paragraph 1014.

Note 13.**Debt**

As of September 30		2004			2003
(Amounts in thousands)	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance	
1. Public Debt:					
A. Held by Government Accounts	N/A	N/A	N/A	N/A	
B. Held by the Public	N/A	N/A	N/A	N/A	
C. Total Public Debt	N/A	N/A	N/A	N/A	
2. Agency Debt:					
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0	0
B. Debt to the Federal Financing Bank	0	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	0	0
D. Total Agency Debt	\$ 0	\$ 0	\$ 0	\$ 0	0
3. Total Debt:	\$ 0	\$ 0	\$ 0	\$ 0	0
4. Classification of Debt:					
A. Intra-governmental Debt			\$ 0	\$ 0	0
B. Non-Federal Debt			N/A	N/A	0
C. Total Debt			\$ 0	\$ 0	0
5. Other Information:					

The Chemical and Biological Defense Program has no debts to report.

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

As of September 30

2004

2003

(Amounts in thousands)

1. Environmental Liabilities – Non Federal

A. Accrued Environmental Restoration (DERP funded) Costs:

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

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

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

C. Base Realignment and Closure (BRAC)

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

D. Environmental Disposal for Weapons Systems Programs

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

2. Total Environmental Liabilities:

	\$	0	\$	0	\$	0	\$	0
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3. Other Information Related to Environmental Liabilities:

The Chemical and Biological Defense Program has no environmental liabilities or disposal liabilities to report.

Note 15.A.	Other Liabilities
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As of September 30	2004			2003
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in thousands)				
1. Intra-governmental:				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	17	0	17	5
L. Total Intra-governmental Other Liabilities	\$ 17	\$ 0	\$ 17	\$ 5

As of September 30 (Amounts in thousands)	2004			2003
	Current Liability	Noncurrent Liability	Total	Total
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	\$ 1,195	\$ 0	\$ 1,195	\$ 1,579
B. Advances from Others	0	0	0	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	8,564
J. Accrued Unfunded Annual Leave	391	0	391	148
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	418	0	418	290
N. Total Non-Federal Other Liabilities	\$ 2,004	\$ 0	\$ 2,004	\$ 10,581
3. Total Other Liabilities:	\$ 2,004	\$ 0	\$ 2,004	\$ 10,581

4. Other Information Pertaining to Other Liabilities:

Fluctuations and/or Abnormalities

Fluctuations

Intra-governmental

The increase of \$12 thousand for accrued funded employee payroll benefit contributions is attributable to the growth and changes in staffing for the Chemical Biological Defense Program (CBDP) organization. During FY 2004, the CBDP had a net increase in its civilian staff of 28 employees.

Non-Federal

The decrease of \$384 thousand for accrued funded payroll and benefits is attributable to a reclassification of labor costs from accrued funded payroll to reimbursed labor costs to other DoD organizations.

The decrease of \$8,564 thousand in Accounts Payable -- Cancelled Appropriations is attributable to the change in reporting methodology for Third Quarter, FY 2004. In accordance with U.S. Department of Treasury guidance, this liability was moved from the Balance Sheet, line 3.F., Other Liabilities to the Balance Sheet, line 3.B., Accounts Payable. See Notes 11 and 12 for further disclosures.

The increase of \$243 thousand in accrued unfunded annual leave is attributable to the growth and changes in staffing for the CBDP organization. During FY 2004, the CBDP had a net increase in its civilian staff of 28 employees.

The increase of \$128 thousand in other liabilities is attributed to the increase in employer contributions and payroll brought on by growth and changes in staffing for the CBDP organization. During FY 2004, the CBDP had a net increase in its civilian staff of 28 employees.

The decrease of \$8,577 thousand in total non-federal liabilities is the cumulative result of the following (explanations provided above):

	(In thousands)
Decrease in Accounts Payable – Cancelled Appropriations	\$ 8,564
Decrease in Accrued Funded Payroll	384
Increase in Accrued Unfunded Leave	243
Increase in Other Liabilities	128
Cumulative decrease in Total Non-Federal Other Liabilities	\$ 8,577

Other Information Related to Other Liabilities

Composition of Other Liabilities

Other liabilities are comprised of the following (+/- 10 percent of total Other Liabilities):

	(In thousands)
Employer Contributions and Payroll Taxes Payable	\$ 418

Note References

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

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

For regulatory discussion on Other Liabilities, see DoD Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

Note 15.B. Capital Lease Liability

	2004				2003
As of September 30	Asset Category				
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total	Total
1. Future Payments					
Due:					
A. 2004	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
B. 2005	0	0	0	0	0
C. 2006	0	0	0	0	0
D. 2007	0	0	0	0	0
E. 2008	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

2. Capital Lease Liabilities Covered by Budgetary Resources:

\$ 0 \$ 0

3. Capital Lease Liabilities Not Covered by Budgetary Resources:

\$ 0 \$ 0

4. Other Information:

The CBDP has no Capital Lease Liabilities to report.

Note 16.	Commitments and Contingencies
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Disclosures Related to Commitments and Contingencies:

The Chemical and Biological Defense Program has no commitments or contingencies to report.

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

As of September 30	2004			2003	
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
(Amounts in thousands)					
1. Pension and Health Benefits:					
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
2. Other:					
A. FECA	\$ 0		\$ 0	\$ 0	\$ 0
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. <i>[Enter Program Name]</i>	0		0	0	0
E. Total Other	\$ 0		\$ 0	\$ 0	\$ 0
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:					
	\$ 0		\$ 0	\$ 0	\$ 0

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:

The Chemical and Biological Defense Program has no military retirement benefits or other employment-related actuarial liabilities to report.

Note 18. Unexpended Appropriations

As of September 30		
	2004	2003
(Amounts in thousands)		
1. Unexpended Appropriations:		
A. Unobligated, Available	\$ 155,925	\$ 170,857
B. Unobligated, Unavailable	10,195	10,106
C. Unexpended Obligations	1,147,605	989,329
D. Total Unexpended Appropriations	\$ 1,313,725	\$ 1,170,292

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 \$158,277 thousand increase in unexpended obligations is largely attributable to the congressional supplement received in FY 2003. CBDP received approximately \$225 million from a congressional supplement in May 2003 for the purchase and delivery of chemical protective suits for the Military Departments. As a result of the late receipt in FY 2003, those funds were being executed during FY 2003 and FY 2004.

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 increase in Intragovernmental Gross Costs of \$182,023 thousand is primarily attributable to the purchase and delivery of chemical protective suits for the Military Departments. The CBDP received a \$225 million congressional supplement for the chemical protective suits in May 2003 that was primarily executed in FY 2004.

The decrease in Intragovernmental Earned Revenue of \$947 thousand is primarily attributable to collections from the Department of State, Federal Bureau of Investigation, and the Food and Drug Administration for anthrax vaccines and antibodies.

The decrease of \$177,353 thousand in Gross Costs with the Public is primarily attributable to system coding corrections involving the purchase and delivery of the chemical protective suits for the Military Departments. Due to accounting system coding errors, \$190,499 thousand was misclassified in FY 2003 as non-Federal payables before the protective suits were delivered. As a result of the system coding corrections in FY 2004, \$190,350 thousand was reclassified and reported as Intragovernmental Gross Costs, instead of Gross Costs with the Public.

Information Related to the Statement of Net Cost

Statement of Net Cost

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

Reporting Entities

The amounts presented in the SoNC are based on obligations and disbursements and, therefore, may not in all cases report actual accrued costs. The CDBP 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 entity's compliance with legal constraints and controls over the use of federal funds. The Defense Finance & Accounting Service (DFAS) 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 the CDBP.

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

As of September 30

(Amounts in thousands)

Budget Functional Classification	2004			2003
	Gross Cost	(Less: Earned Revenue)	Net Cost	Net Cost
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0	\$ 0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0	0
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0	0	0	0
4. Federal Employees Retirement and Disability, Department of Defense Military Retirement Fund (602)	0	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0	0
6. Medicare Eligible Retiree Health Care Fund (551)	0	0	0	0
7. Total	\$ 0	\$ 0	\$ 0	\$ 0
8. Other Information				

Note Reference

Department of Defense Financial Management Regulation, 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

	2004			2003	
	Gross Cost to Generate Intra-governmental Revenue	(Less: Earned Revenue)	Net Cost	Net Cost	
(Amounts in thousands)					
Budget Functional Classification					
1. Department of Defense Military (051)	\$ 0	\$ 0	\$ 0	\$ 0	0
2. Water Resources by U.S. Army Corps of Engineers (301)	0	0	0	0	0
3. Pollution Control and Abatement by US. Army Corps of Engineers (304)	0	0	0	0	0
4. Federal Employees Retirement and Disability Department of Defense Military Retirement Trust Fund (602)	0	0	0	0	0
5. Veterans Education, Training, and Rehabilitation by Department of Defense Education Benefits Trust Fund (702)	0	0	0	0	0
6. Medicare Eligible Retiree Health Care Fund (551)	0	0	0	0	0
7. Total	\$ 0	\$ 0	\$ 0	\$ 0	0

8. Other Information

Note 19.D.	Imputed Expenses	
As of September 30 (Amounts in thousands)	2004	2003
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 112	\$ 11
2. Civilian Health	66	17
3. Civilian Life Insurance	1	0
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	\$ 179	\$ 28

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 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 this information 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.

Note 19.E.	Benefit Program Expenses	
As of September 30 (Amounts in thousands)	2004	2003
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.

**Note
19.G.**

**Amounts for Foreign Military Sales (FMS) Program Procurements from
Contractors**

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

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

Note 19.H.	Stewardship Assets
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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 accounting systems used to support the CBDP do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the CBDP was unable to fully reconcile intragovernmental revenue balances with its trading partners. 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 such reconciliations can not be accomplished with the existing or foreseeable resources.

Intragovernmental Operating Expenses

The CBDP's operating expenses were adjusted in the 4th Quarter based on a comparison between the CBDP's operating expenses and the DoD summary level seller-side revenue. The DFAS posted an adjustment to operating expenses to reflect unrecognized revenue. The operating expenses of the CBDP were adjusted upward in the amount of \$275,860 thousand. Research continues to analyze the trading partner transactions that will explain the adjustment made.

Note 19.J.**Suborganization Program Costs**

As of September 30

(Amounts in thousands)

2004

2003

Subentity A

Subentity B

Subentity C

1. Program A Costs:

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

2. Program B Costs:

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

3. Program C Costs:

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

4. Program D Costs:

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 D Non-federal Costs	\$	0	\$	0	\$	0	\$	0
C. Total Program D Costs	\$	0	\$	0	\$	0	\$	0

5. Other Information:

Note Reference

For regulatory discussion on Suborganization Program Costs, see DoD FMR, Volume 6B, Chapter 10, paragraph 102128.

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

As of September 30		Cumulative Results of Operations 2004	Unexpended Appropriations 2004	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	
(Amounts in thousands)						
1. Prior Period Adjustments						
Increases (Decreases) to Net Position						
Beginning Balance:						
A. Changes in Accounting Standards	\$	0	\$	0	\$	0
B. Errors and Omissions in Prior Year Accounting Reports		0		0		0
C. Other Prior Period Adjustments		0		0		0
D. Total Prior Period Adjustments	\$	0	\$	0	\$	0
2. Imputed Financing:						
A. Civilian CSRS/FERS Retirement	\$	112	\$	11	\$	0
B. Civilian Health		66		17		0
C. Civilian Life Insurance		1		0		0
D. Military Retirement Pension		0		0		0
E. Military Retirement Health		0		0		0
F. Judgment Fund		0		0		0
G. Total Imputed Financing	\$	179	\$	28	\$	0

3. Other Information:

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 (FEGLI) do not fully cover the Government's cost to provide these benefits. An imputed cost is recognized as the difference between the Government's cost of providing these benefits to the employees and contributions made by and for them. 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 the 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.

Fluctuations and/or Abnormalities

Fluctuations

The imputed financing costs fluctuate since they are based on the number of full-time equivalents within an entity at any given point in time. The increase of \$150 thousand for imputed financing costs of providing employee benefits is attributable to the growth and changes in staffing for the Chemical Biological Defense Program (CBDP) organization. During FY 2004, the CBDP had a net increase in its civilian staff of 28 employees.

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. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2004	2003
(Amounts in thousands)		
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 1,153,194	\$ 990,902
2. Available Borrowing and Contract Authority at the End of the Period	0	0

3. Other Information:

Other Disclosures

There is no direct correlation between Line 1 reported above to any specific line on the Statement of Budgetary Resources (SBR). The Net Amount of Budgetary Resources Obligated for Undelivered Orders disclosed on Note 21 contains the following accounts: Undelivered Orders- Obligations Prepaid/Advanced, Undelivered Orders- Obligations Unpaid, and Downward/Upward Adjustments of Prior-Year Unpaid Undelivered Orders. The SBR Line 14C “Undelivered Orders” contains all of the referenced accounts excluding Undelivered Orders- Obligations Prepaid/Advanced. In addition, Line 14C includes the reporting of Undelivered Orders – Obligations Transferred.

Apportionment Categories for Obligations Incurred

Budgetary Resources	Report on Budget Execution	Statement of
(In Thousands)	(In Thousands)	(In Thousands)
Direct Obligations, Category A	1,392,373	
1,392,373		
Reimbursable Obligations	<u>4,976</u>	
<u>4,976</u>		
Total Obligations		1,397,349
1,397,349		

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 22.	Disclosures Related to the Statement of Financing
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Disclosures Related to the Statement of Financing:

Other Material Changes

The \$150 thousand increase in imputed financing from costs absorbed by others is attributable to the imputed costs recognized equaling the difference between the cost of providing benefits and the contribution remitted. The Chemical and Biological Defense Program (CBDP) remitted contributions of \$179 thousand for the Civil Service Retirement System, Federal Employee Retirement System, Federal Employees Health Benefits Program, and the Federal Employee Group Life Insurance Program.

The \$8,604 thousand decrease, to \$0, for other components of the Net Cost of Operations that will not require or generate resources in the current period, is attributable to no future funded expenses reported for FY 2004, based on the comparison of current period future funded expenses to change in unfunded liabilities.

The \$7,100 thousand decrease, to \$0, in other components not requiring or generating resources, is attributable to a decrease in the adjustment amount made to balance the Statement of Financing (SOF) to the Statement of Changes in Net Position. Differences between budgetary and proprietary data for the CBDP is a previously identified deficiency. See other disclosures below for additional information related to the Statement of Financing.

Other Disclosures

The objective of the SOF 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.

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:

The Chemical and Biological Defense Program has no disclosures related to the Statement of Custodial Activity to report.

Note 24.A.	Other Disclosures
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1. ENTITY AS LESSEE-Operating Leases

As of September 30		2004				2003	
(Amounts in thousands)							
B. Future Payments Due:		Land and Buildings	Equipment	Other	Total		Total
<u>Fiscal Year</u>							
2005	\$	0	\$	0	\$	0	\$
2006		0		0		0	
2007		0		0		0	
2008		0		0		0	
2009		0		0		0	
After 5 Years		0		0		0	
Total Future Lease Payments Due	\$	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:

As of the First Quarter, FY 2004, the Chemical and Biological Defense Program (CBDP) became a separate reporting entity. Prior to FY 2004, CBDP's FY 1998 and prior funds were consolidated under the Missile Defense Agency and the FY 1999 – FY 2004 funds were consolidated under the Defense Threat Reduction Agency. Subsequent to the separation, personnel services from other entities were identified that were supporting the CBDP but were unreimbursed. The personnel services provided for FY 2004 were the following.

(in thousands)

Civilian Labor Costs:

Salaries	\$ 3,025
Benefits	<u>817</u>

Total **\$ 3,842**

Total Civilian Full Time Equivalent Staff Years: 34

Military Labor Costs:

Salaries	\$ 400
Benefits	<u>388</u>

Total **\$ 788**

Total Military Assigned:

Officers	6
Enlisted	<u>0</u>

Total **6**

TAB D

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING BALANCE SHEET

As of September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	Combined Total	Elimination
	<u> </u>	<u> </u>	<u> </u>
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	\$ 0	\$ 1,373,798	\$ 0
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity-Other	0	0	0
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	1	169	0
Other Assets (Note 6)	1	1	0
Total Intragovernmental Assets	<u>\$ 2</u>	<u>\$ 1,373,968</u>	<u>\$ 0</u>
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0	\$ 0
Accounts Receivable (Note 5)	0	0	0
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	0	0	0
General Property, Plant and Equipment (Note 10)	0	0	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	0	54,274	0
TOTAL ASSETS	<u><u>\$ 2</u></u>	<u><u>\$ 1,428,242</u></u>	<u><u>\$ 0</u></u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING BALANCE SHEET

As of September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 4,193	\$ 2,444	\$ 0
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	17	0
Total Intragovernmental Liabilities	<u>\$ 4,193</u>	<u>\$ 2,461</u>	<u>\$ 0</u>
Accounts Payable (Note 12)	\$ 8,916	\$ 16,374	\$ 0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	1,164	840	0
Debt Held by Public	0	0	0
TOTAL LIABILITIES	<u>\$ 14,273</u>	<u>\$ 19,675</u>	<u>\$ 0</u>
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 691,036	\$ 640,835	\$ 0
Cumulative Results of Operations	53,855	8,566	0
TOTAL NET POSITION	<u>\$ 744,891</u>	<u>\$ 649,401</u>	<u>\$ 0</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 759,164</u>	<u>\$ 669,076</u>	<u>\$ 0</u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING BALANCE SHEET

As of September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	Combined Total	Elimination
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 18,148	\$ 24,785	\$ 0
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	0	17	0
Total Intragovernmental Liabilities	\$ 18,148	\$ 24,802	\$ 0
Accounts Payable (Note 12)	\$ 0	\$ 25,290	\$ 0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	0	2,004	0
Debt Held by Public	0	0	0
TOTAL LIABILITIES	\$ 18,148	\$ 52,096	\$ 0
NET POSITION			
Unexpended Appropriations (Note 18)	\$ (18,146)	\$ 1,313,725	\$ 0
Cumulative Results of Operations	0	62,421	0
TOTAL NET POSITION	\$ (18,146)	\$ 1,376,146	\$ 0
TOTAL LIABILITIES AND NET POSITION	\$ 2	\$ 1,428,242	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING BALANCE SHEET

As of September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated	
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 24,785	\$ 6,884	
Debt (Note 13)	0	0	
Environmental Liabilities (Note 14)	0	0	
Other Liabilities (Note 15 & Note 16)	17	5	
Total Intragovernmental Liabilities	<u>\$ 24,802</u>	<u>\$ 6,889</u>	
Accounts Payable (Note 12)	\$ 25,290	\$ 186,714	
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	
Environmental Liabilities (Note 14)	0	0	
Loan Guarantee Liability (Note 8)	0	0	
Other Liabilities (Note 15 and Note 16)	2,004	10,581	
Debt Held by Public	0	0	
TOTAL LIABILITIES	<u>\$ 52,096</u>	<u>\$ 204,184</u>	
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 1,313,725	\$ 1,170,292	
Cumulative Results of Operations	62,421	19,457	
TOTAL NET POSITION	<u>\$ 1,376,146</u>	<u>\$ 1,189,749</u>	
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,428,242</u></u>	<u><u>\$ 1,393,933</u></u>	

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF NET COST

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
Program Costs		
Intragovernmental Gross Costs	\$ 374,902	\$ 192,879
(Less: Intragovernmental Earned Revenue)	(150)	(1,097)
Intragovernmental Net Costs	\$ 374,752	\$ 191,782
Gross Costs With the Public	715,191	892,544
(Less: Earned Revenue From the Public)	0	0
Net Costs With the Public	\$ 715,191	\$ 892,544
Total Net Cost	\$ 1,089,943	\$ 1,084,326
Cost Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	<u>\$ 1,089,943</u>	<u>\$ 1,084,326</u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 36,020	\$ (16,563)	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	36,020	(16,563)	0
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	36,020	(16,563)	0
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	483,226	612,763	0
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 (+/-)	17,680	8,414	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	179	0
Other (+/-)	0	0	0
Total Financing Sources	500,906	621,356	0
Net Cost of Operations (+/-)	483,070	596,228	0
Ending Balances	\$ 53,856	\$ 8,565	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	Combined Total	Elimination
	<u> </u>	<u> </u>	<u> </u>
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	\$ 0	\$ 19,457	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	<u>0</u>	<u>19,457</u>	<u>0</u>
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	<u>0</u>	<u>19,457</u>	<u>0</u>
Budgetary Financing Sources:			
Appropriations received	0	0	0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	10,645	1,106,634	0
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	26,094	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	179	0
Other (+/-)	0	0	0
Total Financing Sources	<u>10,645</u>	<u>1,132,907</u>	<u>0</u>
Net Cost of Operations (+/-)	10,645	1,089,943	0
Ending Balances	<u>\$ 0</u>	<u>\$ 62,421</u>	<u>\$ 0</u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 19,457	\$ 24,447
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	19,457	24,447
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	19,457	24,447
Budgetary Financing Sources:		
Appropriations received	0	0
Appropriations transferred-in/out (+/-)	0	0
Other adjustments (rescissions, etc) (+/-)	0	0
Appropriations used	1,106,634	1,083,009
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	26,094	(3,701)
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	179	28
Other (+/-)	0	0
Total Financing Sources	1,132,907	1,079,336
Net Cost of Operations (+/-)	1,089,943	1,084,326
Ending Balances	\$ 62,421	\$ 19,457

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ 621,845	\$ 555,948	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	621,845	555,948	0
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	621,845	555,948	0
Budgetary Financing Sources:			
Appropriations received	575,489	679,013	0
Appropriations transferred-in/out (+/-)	(13,906)	30,000	0
Other adjustments (rescissions, etc) (+/-)	(9,165)	(11,363)	0
Appropriations used	(483,226)	(612,763)	0
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
Other Financing Sources:			
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
Total Financing Sources	69,192	84,887	0
Net Cost of Operations (+/-)			
Ending Balances	\$ 691,037	\$ 640,835	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	Combined Total	Elimination
UNEXPENDED APPROPRIATIONS			
Beginning Balances	\$ (7,501)	\$ 1,170,292	\$ 0
Prior period adjustments (+/-)			
Prior Period Adjustments - Restated (+/-)	0	0	0
Beginning Balance, Restated	(7,501)	1,170,292	0
Prior Period Adjustments - Not Restated (+/-)	0	0	0
Beginning Balances, as adjusted	(7,501)	1,170,292	0
Budgetary Financing Sources:			
Appropriations received	0	1,254,502	0
Appropriations transferred-in/out (+/-)	0	16,094	0
Other adjustments (rescissions, etc) (+/-)	(1)	(20,529)	0
Appropriations used	(10,645)	(1,106,634)	0
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
Other Financing Sources:			
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
Total Financing Sources	(10,646)	143,433	0
Net Cost of Operations (+/-)			
Ending Balances	\$ (18,147)	\$ 1,313,725	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	2004 Consolidated	2003 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 1,170,292	\$ 977,185
Prior period adjustments (+/-)		
Prior Period Adjustments - Restated (+/-)	0	0
Beginning Balance, Restated	1,170,292	977,185
Prior Period Adjustments - Not Restated (+/-)	0	0
Beginning Balances, as adjusted	1,170,292	977,185
Budgetary Financing Sources:		
Appropriations received	1,254,502	1,724,603
Appropriations transferred-in/out (+/-)	16,094	(413,454)
Other adjustments (rescissions, etc) (+/-)	(20,529)	(35,033)
Appropriations used	(1,106,634)	(1,083,009)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers-in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	143,433	193,107
Net Cost of Operations (+/-)		
Ending Balances	\$ 1,313,725	\$ 1,170,292

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
	_____	_____	_____
BUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
Budget Authority:			
Appropriations received	\$ 0	\$ 1,254,502	\$ 1,724,603
Borrowing authority	0	0	0
Contract authority	0	0	0
Net transfers (+/-)	0	1,000	(425,761)
Other	0	0	0
Unobligated balance:			
Beginning of period	0	180,963	168,495
Net transfers, actual (+/-)	0	15,094	12,307
Anticipated Transfers Balances	0	0	0
Spending authority from offsetting collections:			
Earned	0	0	0
Collected	0	1,251	57
Receivable from Federal sources	0	(1,102)	1,040
Change in unfilled customer orders	0	0	0
Advance received	0	0	0
Without advance from Federal sources	0	(4,439)	9,000
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	0	(4,290)	10,097
Recoveries of prior year obligations	0	136,727	121,974
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	(20,528)	(35,033)
Total Budgetary Resources	\$ 0	\$ 1,563,468	\$ 1,576,682

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
STATUS OF BUDGETARY RESOURCES			
Obligations incurred:			
Direct	\$ 668,886	\$ 723,487	\$ 0
Reimbursable	4,853	123	0
Subtotal	673,739	723,610	0
Unobligated balance:			
Apportioned	52,151	103,774	0
Exempt from apportionment	0	0	0
Other available	(1)	(1)	0
Unobligated Balances Not Available	3,650	6,546	0
Total, Status of Budgetary Resources	\$ 729,539	\$ 833,929	\$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net - beginning of period	\$ 674,618	\$ 501,748	\$ 0
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, Net - end of period:			
Accounts receivable	(169)	188	0
Unfilled customer order from Federal sources	(3,838)	(723)	0
Undelivered orders	640,094	531,237	0
Accounts payable	14,374	27,411	0
Outlays:			
Disbursements	644,524	589,430	0
Collections	(979)	(272)	0
Subtotal	643,545	589,158	0
Less: Offsetting receipts	0	0	0
Net Outlays	\$ 643,545	\$ 589,158	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
	<u> </u>	<u> </u>	<u> </u>
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
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	<u>0</u>	<u>0</u>	<u>0</u>
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	0	0	0
Total Budgetary Resources	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
	_____	_____	_____
NONBUDGETARY FINANCING ACCOUNTS			
BUDGETARY RESOURCES			
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
Total Budgetary Resources	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
	_____	_____	_____
STATUS OF BUDGETARY RESOURCES			
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
Total, Status of Budgetary Resources	\$ 0	\$ 0	\$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	\$ 0	\$ 0	\$ 0
Obligated Balance transferred, net (+/-)	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
Net Outlays	\$ 0	\$ 0	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
	_____	_____	_____
STATUS OF BUDGETARY RESOURCES			
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
Total, Status of Budgetary Resources	\$ 0	\$ 0	\$ 0
Relationship of Obligations to Outlays:			
Obligated Balance, Net ? beginning of period	\$ 0	\$ 0	\$ 0
Obligated Balance transferred, net (+/-)	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
Net Outlays	\$ 0	\$ 0	\$ 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations incurred	\$ 673,739	\$ 723,610	\$ 0
Less: Spending authority from offsetting collections and recoveries (-)	(54,351)	(78,086)	0
Obligations net of offsetting collections and recoveries	619,388	645,524	0
Less: Offsetting receipts (-)	0	0	0
Net obligations	619,388	645,524	0
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	179	0
Other (+/-)	0	0	0
Net other resources used to finance activities	0	179	0
Total resources used to finance activities	619,388	645,703	0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
Resources Used to Finance Activities:			
Budgetary Resources Obligated			
Obligations incurred	\$ 0	\$ 1,397,349	\$ 1,395,719
Less: Spending authority from offsetting collections and recoveries (-)	(1)	(132,438)	(132,071)
Obligations net of offsetting collections and recoveries	(1)	1,264,911	1,263,648
Less: Offsetting receipts (-)	0	0	0
Net obligations	(1)	1,264,911	1,263,648
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	179	29
Other (+/-)	0	0	0
Net other resources used to finance activities	0	179	29
Total resources used to finance activities	(1)	1,265,090	1,263,677

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
	<hr/>	<hr/>	<hr/>
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	(140,053)	(32,884)	0
Unfilled Customer Orders	3,838	(8,277)	0
Resources that fund expenses recognized in prior periods	(102)	(8,314)	0
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	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	0	0
Other (+/-)	0	0	0
Total resources used to finance items not part of the net cost of operations	<hr/> (136,317)	<hr/> (49,475)	<hr/> 0
Total resources used to finance the net cost of operations	<hr/> 483,071	<hr/> 596,228	<hr/> 0

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
	<hr/>	<hr/>	<hr/>
Resources Used to Finance Items not Part of the Net Cost of Operations			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered Orders (-)	10,645	(162,292)	(189,452)
Unfilled Customer Orders	0	(4,439)	9,000
Resources that fund expenses recognized in prior periods	0	(8,416)	(403)
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	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	0	0
Other (+/-)	0	0	0
Total resources used to finance items not part of the net cost of operations	<hr/> 10,645	<hr/> (175,147)	<hr/> (180,855)
Total resources used to finance the net cost of operations	<hr/> 10,644	<hr/> 1,089,943	<hr/> 1,082,822

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	Procurement	Research, Development Test & Evaluation	Military Construction
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Period:			
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 (+/-)	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	0	0	0
Components not Requiring or Generating Resources:			
Depreciation and amortization	0	0	0
Revaluation of assets or liabilities (+/-)	0	0	0
Other (+/-)			
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	0	0	0
Total components of Net Cost of Operations that will not require or generate resources	0	0	0
Total components of net cost of operations that will not require or generate resources in the current period	0	0	0
Net Cost of Operations	<u>483,071</u>	<u>596,228</u>	<u>0</u>

Department of Defense

Under Secretary of Defense (Acquisition, Technology, and Logistics) - Chemical Biological Defense Program

COMBINING STATEMENT OF FINANCING

For the periods ended September 30, 2004 and 2003

(\$ in Thousands)

	CHEMBIO Component Level	2004 Combined	2003 Combined
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:			
Components Requiring or Generating Resources in Future Period:			
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 (+/-)	0	0	8,605
Total components of Net Cost of Operations that will require or generate resources in future periods	0	0	8,605
Components not Requiring or Generating Resources:			
Depreciation and amortization	0	0	0
Revaluation of assets or liabilities (+/-)	0	0	0
Other (+/-)			
Trust Fund Exchange Revenue	0	0	0
Cost of Goods Sold	0	0	0
Operating Material & Supplies Used	0	0	0
Other	0	0	(7,101)
Total components of Net Cost of Operations that will not require or generate resources	0	0	(7,101)
Total components of net cost of operations that will not require or generate resources in the current period	0	0	1,504
Net Cost of Operations	<u>10,644</u>	<u>1,089,943</u>	<u>1,084,326</u>

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 FY2004
(In Millions of Dollars)

(a) Categories	(b) <u>FY00</u>	© <u>FY01</u>	(d) <u>FY02</u>	(e) <u>FY03</u>	(f) <u>FY04</u>
1. Basic Research	35.845	37.334	35.565	47.370	46.256
2. Applied Research	70.570	73.717	101.024	149.899	148.711
3. Development					
Advanced Technology Development	51.305	56.365	54.241	82.116	93.878
Demonstration and Validation	55.040	78.783	84.496	81.965	94.764
Engineering and Manufacturing Development	116.918	91.753	114.510	144.624	157.534
Research, Development, Test and Evaluation and Management Support	30.605	32.354	36.052	48.298	38.093
Operational Systems Development					
Total	360.283	370.306	425.888	554.272	579.236

Narrative Statement

See attached.

CBDP Narrative Statement.:

“**Basic Research** is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.”

“**Applied Research** is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.”

“**Development** takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advanced Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.
4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.
5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received

approval for production, for which production funds have been budgeted in subsequent fiscal years.”

The following are representative program examples for each of the above major categories:

Basic - This program funds the Joint Service core research program for chemical and biological (CB) defense (medical and non-medical). The basic research program aims to improve the operational performance of present and future Department of Defense (DoD) components by expanding knowledge in relevant fields for CB defense. Moreover, basic research supports a Joint Force concept of a lethal, integrated, supportable, highly mobile force with enhanced performance by the individual soldier, sailor, airman, or marine. Specifically, the program promotes theoretical and experimental research in the chemical, biological, medical, and related sciences. Research areas are determined and prioritized to meet Joint Service needs as stated in mission area analyses and Joint operations requirements, and to take advantage of scientific opportunities. Funds laboratories and research organizations to capitalize on scientific talent, specialized and uniquely engineered facilities, and technological breakthroughs. The work in this program element is consistent with the Joint Service Nuclear, Biological, and Chemical (NBC) Defense Research, Development, and Acquisition (RDA) Plan. Basic research efforts lead to expeditious transition of the resulting knowledge and technology to the applied research and advanced technology development activities. This project also covers the conduct of basic research efforts in the areas of real-time sensing and diagnosis and immediate biological countermeasures. The projects in this PE include basic research efforts directed toward providing fundamental knowledge for the solution of defense-related problems and new-improved military capabilities.

Applied Research - Funding sustains a robust program, which reduces the danger of a CB attack and enables U.S. forces to survive and continue operations in a CB environment. The medical program focuses on development of vaccines, pretreatment, and therapeutic drugs, and on casualty diagnosis, patient decontamination, and medical management. In the non-medical area, the emphasis is on continuing improvements in CB defense materiel, including contamination avoidance, decontamination, and protection systems. The program provides for conduct of applied research in the areas of real-time sensing and immediate biological countermeasures. The program provides concept and technology demonstrations of new system concepts that will shape the development for environmental monitoring, medical surveillance, and data mining/fusion/analysis subsystems. The work is consistent with the Joint Service NBC Defense RDA Plan. Efforts under this program transition to and provide risk reduction for Advanced Technology Development, Advanced Component Development and Prototypes and System Development and Demonstration. This project includes non-system specific development directed toward specific military needs.

Development - This program demonstrates technologies that enhance the ability of U.S. forces to defend against, and survive CB warfare. This program funds advanced technology development for Joint Service and Service-specific requirements in both medical and non-medical CB defense areas. The medical program aims to produce drugs, vaccines, and medical devices as countermeasures for CB threat agents. Specific areas of medical investigation include: prophylaxis, pretreatment, antidotes and therapeutics, personnel and patient decontamination, and medical management of casualties. In the non-medical area, the focus is on demonstrations

of CB defense technologies, including biological detection, chemical detection, and decontamination. These demonstrations, conducted in an operational environment with active user and developer participation, integrate diverse technologies to improve DoD CB Warfare defense and deterrence. These demonstrations are leveraged by the Counterproliferation Support Program and include remote Biological Detection. Also research efforts are planned to evaluate technologies for Weapons of Mass Destruction Civil Support Teams (WMD-CSTs). Work conducted under this program transitions to and provides risk reduction for System Integration/Demonstration activities. The work in this program is consistent with the Joint Service NBC Defense RDA Plan. This program also provides for the conduct of advanced technology development in the areas of real-time sensing, accelerated biological warfare (BW) operational awareness, and the restoration of operations following a BW/CW attack. This program is dedicated to conducting proof-of-principle field demonstrations, and tests of system-specific technologies to meet specific military needs.

Operational forces have an immediate need to survive, safely operate, and sustain operations in a CB agent threat environment across the continuum of global, contingency, special operations/low intensity conflict, counternarcotics, and other high risk missions. This program supports the Advanced Component and Prototype (ACD&P) of CB defensive equipment, both medical and non-medical. DoD missions for Homeland Security and for civil support operations have recently expanded and have resulted in providing focus to develop technologies to support CB counterterrorism initiatives. These projects have been structured to consolidate Joint and Service-unique tasks within four commodity areas: contamination avoidance, force protection (individual and collective), decontamination, and medical countermeasures. This program is enhanced using Counterproliferation Support Program funding. ACD&P is conducted for an array of chemical/biological/toxin detection and warning systems to include ARTEMIS, decontamination capabilities to include the sorbent technology, the Joint Service Family of Decontamination Systems (JSFDS) and the Joint Service Sensitive Equipment Decontamination (JSSED) programs. ACD&P is also conducted for the transition of biological detection components (major thrusts include: (1) early warning; (2) collector concentrators; (3) generic detection; and (4) improved reagents) for the future Joint Biological Point Detection System (JBPDS) Block II, and Joint Biological Standoff Detection System, (JBSDS). In the medical chemical/biological defense area, ACD&P is conducted for improved medical equipment, vaccines, and drugs essential to counteracting lethal and human performance degrading effects of CB agent threats. Specific items include improvements to nerve agent antidotes, topical skin protectants, anticonvulsants, biological agent diagnostics, and vaccines to protect against various BW agents. This program focuses on efforts associated with advanced technology development used to demonstrate general military utility to include ACD&P in the areas of Non-Traditional Agents and CB defense equipment.

Operating forces have a critical need for defense against worldwide proliferation of CB warfare capabilities and for medical treatment of casualties in medical treatment facilities. This program supports the System Development and Demonstration of CB defensive equipment, both medical and non-medical. These projects have been restructured to consolidate Joint and Service-unique tasks within four commodity areas: contamination avoidance, force protection (individual and collective), decontamination, and medical countermeasures. The consolidation will provide for development and operational testing of equipment for Joint Service as well as Service-unique

requirements. Contamination avoidance efforts under this system development program will provide U.S. forces with real-time hazard assessment capabilities. They include advanced multi-agent point and remote chemical detection systems for ground, aircraft, and shipboard applications; automated warning and reporting systems; integrated radiation detection and monitoring equipment; and enhanced battlefield reconnaissance capabilities. Force protection efforts will increase protection levels while decreasing physical and psychological burdens imposed by protective equipment. They include improved aircrew respiratory protection, lightweight integrated suit technology, and shipboard collective protection equipment. Weapons of Mass Destruction Civil Support Team (WMD-CST) efforts provide for testing and development of a Unified Command Suite and a Analytical Laboratory Platform for these teams. The medical chemical defense system development program funds improved medical equipment and drugs essential to counteracting lethal and performance-degrading effects of chemical threats and medical equipment essential to meeting medical requirements on the integrated battlefield with emphasis on decreased size/weight and high mobility, yet supporting large numbers of combat casualties. Additionally, foreign medical materiel may be procured for exploitation of advanced technology and development to meet medical defense goals. This program supports the development of prophylactic and therapeutic drugs and rapid identification and diagnostic systems. DoD Biological Defense mission requires the detection of validated biological threat agents to provide early warning capabilities on mobile and fixed platforms. This program will provide theater protection through the development of point and stand-off detection systems. The detection system concept will provide detection, identification, warning, and sample collection for verification that a biological agent attack has occurred. This program also provides for the development of biological defense medical programs. DoD Biological Defense medical mission will address: (1) protective vaccines - vaccination capability against the most probable biological threat agents; (2) identification - clinical identification of biological threat agents through medical evaluation and laboratory analysis to augment early warning capabilities.

This program provides research, development, testing and evaluation management support to the DoD Chemical and Biological Defense Program (CBDP). This effort includes support to the DoD response to CB terrorism; funds joint doctrine and training support; funds sustainment of technical test capability at Dugway Proving Ground; and funds financial/program management support. Additionally, this program funds the Joint Concept Development and Experimentation program, which provides a response to Combatant Commanders and Services regarding joint tests and research assessments. Anti-terrorism funding provides DoD with a process and means to conduct assessments of installation vulnerabilities to CB threats. WMD-CST provides management funds to execute the Consequence Management RDA program. Joint Training and Doctrine Support funds development of Joint Doctrine and Tactics, Techniques, and Procedures for developing CB defense systems. The training and doctrine efforts also fund CB modeling and simulation to support the warfighter. Dugway Proving Ground, a Major Range and Test Facility Base (MRTFB), funding provides for CB defense testing of DoD materiel, equipment, and systems from concept through production; to include a fully instrumented outdoor range capability for testing with simulants that can be precisely correlated to the laboratory testing with live agents. The management support program provides management support for the DoD CBDP to allow program overview and integration of overall medical and non-medical programs by the Assistant to the Secretary of Defense for Nuclear, Chemical, and Biological Defense Programs, through the Deputy Assistant to the Secretary of Defense for Chemical/Biological Defense;

execution management by the Defense Threat Reduction Agency; integration of Joint requirements, management of training and doctrine by the Joint Requirements Office; Joint RDA planning, input to the Annual Report to Congress and Program Objective Memorandum (POM) development by the Program Analysis and Integration Office; review of joint plans and the consolidated CB Defense POM Strategy by Army in its Executive Agent role. The management support program also funds the Joint Test Infrastructure Working Group (JTIWG) program to provide a mechanism to address test infrastructure and technologies needed to support Developmental Testing and Operational Testing of DoD CB defense systems and components throughout the systems' acquisition life cycle, as required in the RDA Plan. The JTIWG program funds a series of methodology, instrumentation, and associated validation programs to provide test infrastructure and technologies for testing RDA systems needed to support all services. The Joint Concept Development and Experimentation Program funds provide planning, conducting, evaluating, and reporting on joint tests (for other than developmental hardware) and accomplishment of operational research assessments in response to requirements received from the Services and the Combatant Commanders for already fielded equipment and systems.