FINANCIAL RESULTS

MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

I am pleased to present the U.S. Department of Energy's consolidated financial statements for fiscal year 2003. For the fifth consecutive year, the Department has received an unqualified opinion on our financial statements. This year's audit was performed by the public accounting firm KPMG LLP, working for the Department's Inspector General. This unqualified or "clean" opinion attests to the fact that the consolidated financial statements fairly present the Department's financial position. These statements were prepared in accordance with the standards developed by the Federal Accounting Standards Advisory Board, as well as the requirements of the Office of Management and Budget and the Government Management Reform Act of 1994.

The Department has made significant progress in accelerating its fiscal year 2003 reporting. This is evidenced by the publication of the Department's Performance and Accountability Report for fiscal year 2003 over a month ahead of the required Office of Management and Budget due date, thereby placing the Department in an excellent position to meet the further accelerated reporting date of November 15, 2004, for fiscal year 2004.

An evaluation of our financial management system was also completed in fiscal year 2003 using guidance issued by the Office of Management and Budget. This evaluation provided assurance that our system is in general conformance with governmental financial system requirements and identified no material nonconformances. Through our multi-year Integrated Management Navigation System initiative, we are taking advantage of improvements in technology to enhance our corporate management systems. When completed, this initiative will result in the integration of financial and performance information, thereby providing better support for management decision-making.

The audit of the financial statements confirmed that the Department maintains effective financial management controls. While no material weaknesses were identified by the auditors, there were two concerns identified as reportable conditions. These reportable conditions concern network security and access and other security controls for unclassified information systems, and the need to strengthen internal controls over performance measurement reporting. The Department is aggressively pursuing the corrective actions necessary to resolve these reportable conditions.

Our goal is to provide exemplary financial stewardship for the American people, the President, and the Congress. I believe you will find the Department's Performance and Accountability Report to be a comprehensive picture of our programs, finances, and results.

James T. Campbell

James T. Campbell

December 11, 2003

Consolidated and Combined Financial Statements

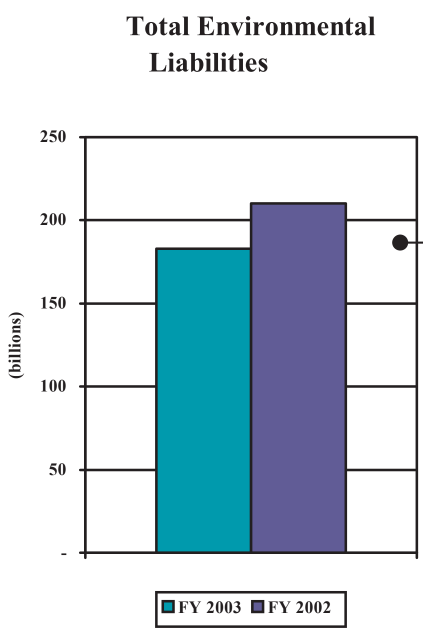
The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements."

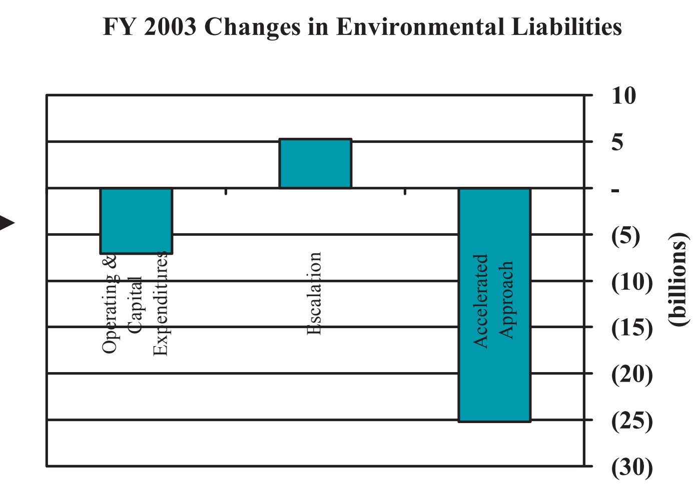
The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement. Some significant balances and changes in balances from the prior year are noted to help clarify the link to the Department's operations.

The *Consolidated Balance Sheets* describe the assets, liabilities, and net position components of the Department. The Consolidated Balance Sheet reflects total assets of $115 billion and liabilities of $238 billion as of September 30, 2003. Environmental liabilities for cleaning up sites that supported the Nation's production and testing of nuclear weapons comprise by far the largest single component of the balance sheet, representing 77 percent of the total liabilities. Estimating this liability requires making assumptions about future activities and is inherently uncertain. The estimate includes a contingency intended to account for uncertainties associated with the technical cleanup scope of the work.

The Department's Office of Environmental Management has continued to implement its accelerated clean up approach focused on reducing risk to public health, workers and the environment and at reduced life-cycle costs. This reduction, along with other changes highlighted in the chart below and more fully explained in the notes to the financial statements, reduced the Department's total environmental liability by $26 billion.





A reduction in the discount rate used to estimate contractor employee pension plan obligations was the primary reason for a decrease in the funded status from an under funding of almost $1 billion last year to an under funding of more than $3.6 billion in FY 2003 for these plans. A similar change in the discount rate used to estimate the obligations of contractor postretirement benefits other than pensions, plus increases in the cost of medical care, were the primary reasons for an increase of $1.4 billion in unfunded plan benefit obligations. Increases in the estimated plan benefit obligations are generally amortized over an extended time period, and therefore do not result in an immediate change in unfunded liabilities recorded by the Department. However, this trend has significant implications for future funding and budgeting needs.

The *Consolidated Statements of Net Cost* summarize the Department's operating costs. During FY 2003 the Department changed the presentation of this statement to report costs by the seven long-term general goals identified in the Department's FY 2004 Strategic Plan. This change resulted in a significant reorganization of the costs and revenues reported by the Department. The *Consolidated Statements of Net Cost* also reports "Net Cost of Transferred Operations." These amounts represent the cost of functions incurred by the Department for programs that were transferred to the Department of Homeland Security as of March 1, 2003, in accordance with the Homeland Security Act of 2002.

All operating costs reported reflect the full cost, including all direct and indirect costs consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs. The most significant component of net costs in FY 2003 resulted from the reductions in environmental liability estimates noted above. The Net Cost of Operations is reported on the *Consolidated Statements of Net Cost* and also on the *Consolidated Statements of Financing.*

The *Consolidated Statements of Changes in Net Position* identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the *Consolidated Balance Sheets* from the beginning to the end of the reporting period.

The *Combined Statements of Budgetary Resources* identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. As of September 30, 2003, the Department had budgetary resources of $33 billion. The *Combined Statements of Budgetary Resources* provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the *Combined Statements of Budgetary Resources* is included in the Required Supplementary Information section on the schedule *Budgetary Resources by Major Account*.

The *Consolidated Statements of Financing* reconcile the obligations incurred to finance operations with the net cost of operations. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period. Obligations incurred link the *Combined Statements of Budgetary Resources* to the *Consolidated Statements of Financing*.

The *Consolidated Statements of Custodial Activities* identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

U. S. Department of Energy
Consolidated Balance Sheets
As of September 30, 2003 and 2002
($ in millions)

	2003	2002
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 14,824	$ 14,109
Investments, Net (Note 4)	18,849	17,058
Accounts Receivable, Net (Note 5)	490	445
Regulatory Assets (Note 6)	4,690	4,767
Other	7	27
Total Intragovernmental	$ 38,860	$ 36,406
Investments, Net (Note 4)	256	243
Accounts Receivable, Net (Note 5)	4,389	4,447
Inventory, Net (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserves	16,818	15,758
Nuclear Materials	22,144	22,027
Other	453	451
General Property, Plant, and Equipment, Net (Note 8)	21,257	20,264
Regulatory Assets (Note 6)	7,282	7,042
Other (Note 9)	3,196	3,384
Total Assets	$ 114,655	$ 110,022
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 123	$ 99
Debt (Note 11)	7,538	8,027
Appropriated Capital Owed (Note 12)	2,906	2,868
Deferred Revenues (Note 13)	158	44
Other (Note 14)	271	272
Total Intragovernmental	$ 10,996	$ 11,310
Accounts Payable	3,087	3,323
Debt (Note 11)	6,443	6,302
Deferred Revenues (Note 13)	18,040	16,661
Environmental Liabilities (Note 15)	183,434	209,629
Pension and Other Actuarial Liabilities (Note 16)	9,926	8,892
Other (Note 14)	3,110	3,006
Contingencies (Note 17)	2,881	2,009
Total Liabilities	$ 237,917	$ 261,132
NET POSITION		
Unexpended Appropriations	8,900	8,206
Cumulative Results of Operations	(132,162)	(159,316)
Total Net Position	$ (123,262)	$ (151,110)
Total Liabilities and Net Position	$ 114,655	$ 110,022

The accompanying notes are an integral part of these statements.

U. S. Department of Energy
Consolidated Statements of Net Cost
For Years Ended September 30, 2003 and 2002
($ in millions)

	2003	2002
GENERAL GOALS		
Nuclear Weapons Stewardship:		
Program Costs	$ 5,214	$ 4,864
Nuclear Nonproliferation:		
Program Costs	$ 968	$ 757
Naval Reactors:		
Program Costs	687	674
Less: Earned Revenues (Note 18)	(22)	(17)
Net Cost of Naval Reactors	$ 665	$ 657
Energy Security:		
Program Costs	6,235	6,377
Less: Earned Revenues (Note 18)	(4,626)	(4,336)
Net Cost of Energy Security	$ 1,609	$ 2,041
World-Class Scientific Research Capacity:		
Program Costs	$ 3,068	$ 2,830
Environmental Management:		
Program Costs	6,287	6,160
Less: Earned Revenues (Note 18)	(160)	(168)
Net Cost of Environmental Management	$ 6,127	$ 5,992
Nuclear Waste:		
Program Costs	421	377
Less: Earned Revenues (Note 18)	(326)	(296)
Net Cost of Nuclear Waste	$ 95	$ 81
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	2,351	2,079
Less: Earned Revenues (Note 18)	(2,330)	(2,043)
Net Cost of Reimbursable Programs	$ 21	$ 36
Other Programs: (Note 19)		
Program Costs	724	659
Earned Revenues (Note 18)	(222)	(223)
Net Cost of Other Programs	$ 502	$ 436
Costs Applied to Reduction of Legacy Environmental Liabilities (Note 20)	(6,242)	(6,013)
Costs Not Assigned (Note 21)	(17,049)	(20,723)
Net Cost of Continuing Operations	$ (5,022)	$ (9,042)
Net Cost of Transferred Operations (Note 22)	44	97
Net Cost of Operations	$ (4,978)	$ (8,945)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Position

For Years Ended September 30, 2003 and 2002
($ in millions)

	2003	2002
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	$ (159,316)	$ (188,660)
Budgetary Financing Sources:		
Appropriations Used	21,374	20,137
Nonexchange Revenues	20	35
Transfers - In/Out Without Reimbursement, Budgetary	(18)	(35)
Other Financing Sources:		
Transfers - In/Out Without Reimbursement, Nonbudgetary	992	215
Imputed Financing from Costs Absorbed by Others	(178)	33
Other Gains and Losses	(14)	14
Total Financing Sources	$ 22,176	$ 20,399
Net Cost of Operations	4,978	8,945
Ending Balance - Cumulative Results of Operations	$ (132,162)	$ (159,316)
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	$ 8,206	$ 7,174
Budgetary Financing Sources Related to Appropriations:		
Appropriations Received	22,248	21,182
Appropriations Transferred - In/Out	(26)	39
Other Adjustments	(154)	(52)
Appropriations Used	(21,374)	(20,137)
Total Financing Sources Related to Appropriations	$ 694	$ 1,032
Ending Balance - Unexpended Appropriations	$ 8,900	$ 8,206

The accompanying notes are an integral part of these statements.

U. S. Department of Energy
Combined Statements of Budgetary Resources
For Years Ended September 30, 2003 and 2002
($ in millions)

	2003	2002
BUDGETARY RESOURCES		
Budget Authority		
Appropriations Received	$ 23,044	$ 22,035
Borrowing and Contract Authority	673	642
Net Transfers	(246)	(115)
Unobligated Balance (Note 24)		
Beginning of Period	3,151	3,050
Net Transfers, Actual	74	(6)
Spending Authority from Offsetting Collections		
Earned		
Collected	6,747	6,653
Receivable from Federal Sources	75	(164)
Change in Unfilled Customer Orders		
Advances received	96	12
Without Advances from Federal Sources	560	183
Recoveries of Prior Year Obligations	218	28
Authority Temporarily Not Available	(87)	(40)
Authority Permanently Not Available	(952)	(448)
Total Budgetary Resources (Note 24)	$ 33,353	$ 31,830
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	$ 22,732	$ 22,000
Exempt from Apportionment	3,483	3,947
Reimbursable	3,530	2,731
Total Obligations Incurred (Note 24)	$ 29,745	$ 28,678
Unobligated Balances Available		
Apportioned Available	1,790	1,501
Exempt from Apportionment	15	9
Unobligated Balances Not Available (Note 24)	1,803	1,642
Total Status of Budgetary Resources	$ 33,353	$ 31,830
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance - Beginning of Period	$ 11,198	$ 10,466
Obligated Balance, Transferred	(20)	-
Obligated Balance, Net of Transfers - Beginning of Period	$ 11,178	$ 10,466
Obligated Balance - End of Period		
Accounts Receivable	$ (612)	$ (537)
Unfilled Customer Orders from Federal Sources	(2,723)	(2,163)
Undelivered Orders	9,893	9,035
Accounts Payable	4,948	4,863
	$ 11,506	$ 11,198
Outlays		
Disbursements	$ 28,564	$ 27,902
Collections	(6,843)	(6,665)
Subtotal	$ 21,721	$ 21,237
Less: Offsetting Receipts	(2,379)	(3,207)
Net Outlays	$ 19,342	$ 18,030

The accompanying notes are an integral part of these statements.

Consolidated Statements of Financing

For Years Ended September 30, 2003 and 2002
($ in millions)

	2003	2002
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 29,745	$ 28,678
Less: Spending Authority from Offsetting Collections and Recoveries	(7,696)	(6,712)
Obligations, Net of Offsetting Collections and Recoveries	$ 22,049	$ 21,966
Offsetting Receipts	(2,379)	(3,207)
Net Obligations	$ 19,670	$ 18,759
Other Resources:		
Imputed Financing from Costs Absorbed by Others	(179)	33
Transfers-In/Out	974	180
Nuclear Waste Fund Offsetting Receipts, Deferred (Note 23)	1,177	2,346
Other	(234)	(376)
Net Other Resources Used to Finance Activities	$ 1,738	$ 2,183
Total Resources Used to Finance Activities	$ 21,408	$ 20,942
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	$ (206)	$ (858)
Resources that Finance the Acquisition of Assets	(4,692)	(3,521)
Resources that Fund Expenses Recognized in Prior Periods	(6,191)	(6,012)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	3	6
Other Resources and Adjustments	(512)	(602)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (11,598)	$ (10,987)
Total Resources Used to Finance the Net Cost of Operations	$ 9,810	$ 9,955
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increases/(Decreases) in Unfunded Liability Estimates (Note 25)	$ (16,847)	$ (20,720)
Increase in Exchange Revenue Receivable from the Public	(19)	(6)
Total Components Requiring or Generating Resources in Future Periods	$ (16,866)	$ (20,726)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,560	1,494
Revaluation of Assets and Liabilities	(31)	110
Other	549	222
Total Components Not Requiring or Generating Resources	$ 2,078	$ 1,826
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ (14,788)	$ (18,900)
NET COST OF OPERATIONS	$ (4,978)	$ (8,945)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Custodial Activities

For Years Ended September 30, 2003 and 2002
($ in millions)

	2003	2002
SOURCES OF COLLECTIONS		
Cash Collections (Note 26)		
Interest	$ 4	$ 6
Penalties and Fines	20	3
Power Marketing Administration Custodial Revenue	512	496
Other Custodial Revenue	-	16
Total Cash Collections	$ 536	$ 521
Accrual Adjustment	12	26
Total Revenue	$ 548	$ 547
DISPOSITION OF REVENUE		
Transferred to Others		
Department of the Treasury	(482)	(421)
Army Corps of Engineers	(7)	(6)
Bureau of Reclamation	(50)	(85)
Others	(3)	(6)
Decrease in Amounts to be Transferred	(6)	(29)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

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Notes to the Consolidated and Combined Financial Statements

1. Significant Accounting Policies

A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (the Department). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D.C., and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary for Energy, Science and Environment; the Under Secretary for National Nuclear Security/Administrator for National Nuclear Security Administration; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. These contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of field organizations.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, these statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (i.e., employee advances and prepaid pension costs) and liabilities (i.e., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the *Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Consolidated Statements of Financing, and Consolidated Statements of Custodial Activities*. The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intra-departmental eliminations.

D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectable accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with SFAS No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is $25,000, except for the power marketing administrations, which use thresholds ranging from $5,000 to $10,000. The capitalization threshold for internal use software is $750,000, except for the power marketing administrations, which use thresholds ranging from $5,000 to $10,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

Structures and Facilities 25 - 50 years
ADP Software 3 - 7 years
Equipment 5 - 40 years

I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plans

Federal Employees

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management.

Contractor Employees

Most of the Department's contractors maintain a defined benefit pension plan under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. The Department reports assets and liabilities of these pension plans as if it were the plan sponsor (see Note 16).

L. Net Cost of Operations

Operating costs are summarized in the *Consolidated Statements of Net Cost* by the seven long-term general goals identified in the Department's FY 2004 Strategic Plan. Operating costs reflect full costs including all direct and indirect costs consumed by these general goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 18 and 19). The general goals are summarized below.

- Nuclear Weapons Stewardship – Ensure that our nuclear weapons continue to serve their essential deterrence role by maintaining and enhancing the safety, security, and reliability of the U.S. nuclear weapons stockpile.

- Nuclear Nonproliferation – Provide technical leadership to limit or prevent the spread of materials, technology, and expertise relating to weapons of mass destruction; advance the technologies to detect the proliferation of weapons of mass destruction worldwide; and eliminate or secure inventories of surplus materials and infrastructure usable for nuclear weapons.

- Naval Reactors – Provide the Navy with safe, militarily effective nuclear propulsion plants and ensure their continued safe and reliable operation.

- Energy Security – Improve energy security by developing technologies that foster a diverse supply of reliable, affordable, and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.

- World-Class Scientific Research Capacity – Provide world-class scientific research capacity needed to: ensure the success of Department missions in national and energy security; advance the frontiers of knowledge in physical sciences and areas of biological, medical, environmental, and computational sciences; or provide world-class research facilities for the Nation's science enterprise.

- Environmental Management – Accelerate cleanup of nuclear weapons manufacturing and testing sites, completing cleanup of 108 contaminated sites by 2025.

- Nuclear Waste – License and construct a permanent repository for nuclear waste at Yucca Mountain and begin acceptance of waste by 2010.

During FY 2003 the Department transferred several operating components to the Department of Homeland Security as required by the Homeland Security Act of 2002. The costs incurred by the Department for these functions prior to their transfer are summarized in the *Consolidated Statements of Net Cost* as "Net Cost of Transferred Operations" (see Note 22).

M. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

Exchange and Non-Exchange Revenues: In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 18). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of the Department's operations and are reported on the *Consolidated Statements of Changes in Net Position*.

Imputed Financing Sources: In certain instances, operating costs of the Department are paid out of funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the *Consolidated Statements of Net Cost*. In addition, these amounts are recognized as imputed financing sources on the *Consolidated Statements of Changes in Net Position.*

Custodial Revenues: The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs no costs to generate these revenues, nor can it use these revenues to finance its operations. These revenues are returned to Treasury and others and are reported on the *Consolidated Statements of Custodial Activities* (see Note 26).

N. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

O. Comparative Data

Certain FY 2002 amounts have been reclassified to conform to the FY 2003 presentation. These reclassifications primarily affected the *Consolidated Statements of Net Cost*. FY 2002 amounts were reclassified to align costs and revenues with the Department's FY 2004 strategic plan general goals.

2. Non-Entity Assets (in millions)

	FY 2003	FY 2002
Intragovernmental		
Fund balance with Treasury		
Naval Petroleum Reserve Deposit Fund (Note 14)	$ 323	$ 323
Elk Hills School Land Fund (Note 14)	154	190
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	260	277
Subtotal	$ 737	$ 790
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14)	256	243
Accounts receivable - Petroleum Pricing Violation Escrow Fund (Notes 5 and 14)	16	16
Inventories - Department of Defense stockpile oil (Notes 7 and 14)	106	106
Other	2	2
Total non-entity assets	$ 1,117	$ 1,157
Total entity assets	113,538	108,865
Total assets	$ 114,655	$ 110,022

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

Naval Petroleum Reserve Deposit Fund

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately $288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining $35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

Petroleum Pricing Violation Escrow Fund

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance.

3. Fund Balance With Treasury (in millions)

Fiscal Year 2003	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 1,582	$ 89	$ 134	$ -	$ 1,805
Unavailable (Note 24)	498	1,305	-	-	1,803
Obligated balance not yet disbursed					
Undelivered orders	9,645	29	214	5	9,893
Unfilled customer orders	(2,709)	-	(14)	-	(2,723)
Receivables for reimbursements earned	(270)	(337)	(5)	-	(612)
Accounts payable and deposit fund liabilities	3,825	985	139	377	5,326
Other adjustments					
Appropriations not available pursuant to law, and contract authority	87	(203)	-	-	(116)
Unavailable receipt accounts	-	-	1,043	-	1,043
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(130)	-	(130)
Uranium Facilities Maintenance and Remediation	(163)	-	-	-	(163)
U.S. Enrichment Corporation revolving fund	-	(1,302)	-	-	(1,302)
Total FY 2003 Fund balance with Treasury	**$ 12,495**	**$ 566**	**$ 1,381**	**$ 382**	**$ 14,824**

Fiscal Year 2002	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 1,320	$ 94	$ 96	$ -	$ 1,510
Unavailable (Note 24)	376	1,266	-	-	1,642
Obligated balance not yet disbursed					
Undelivered orders	8,851	26	153	5	9,035
Unfilled customer orders	(2,159)	-	(4)	-	(2,163)
Receivables for reimbursements earned	(233)	(297)	(7)	-	(537)
Accounts payable and deposit fund liabilities	3,984	749	129	380	5,242
Other adjustments					
Appropriations not available pursuant to law, and contract authority	40	(252)	-	-	(212)
Unavailable receipt accounts	-	-	1,085	-	1,085
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(82)	-	(82)
Uranium Facilities Maintenance and Remediation	(152)	-	-	-	(152)
U.S. Enrichment Corporation revolving fund	-	(1,259)	-	-	(1,259)
Total FY 2002 Fund balance with Treasury	**$ 12,027**	**$ 327**	**$ 1,370**	**$ 385**	**$ 14,109**

4. Investments, Net (in millions)

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

	Face	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains	Market Value
Fiscal Year 2003					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 25,882	$ (12,062)	$ 13,820	$ 1,202	$ 15,022
D&D Fund	3,410	35	3,445	132	3,577
U.S. Enrichment Corporation	1,302	22	1,324	1	1,325
Petroleum Pricing Violation Escrow Fund	261	(1)	260	-	260
Subtotal	$ 30,855	$ (12,006)	$ 18,849	$ 1,335	$ 20,184
Non-intragovernmental Marketable Securities					
Petroleum Pricing Violation Escrow Fund	256	-	256	-	256
Total FY 2003 investments	**$ 31,111**	**$ (12,006)**	**$ 19,105**	**$ 1,335**	**$ 20,440**
Fiscal Year 2002					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 23,421	$ (10,956)	$ 12,465	$ 1,544	$ 14,009
D&D Fund	2,987	27	3,014	177	3,191
U.S. Enrichment Corporation	1,259	43	1,302	1	1,303
Petroleum Pricing Violation Escrow Fund	278	(1)	277	-	277
Subtotal	$ 27,945	$ (10,887)	$ 17,058	$ 1,722	$ 18,780
Non-intragovernmental Marketable Securities					
Petroleum Pricing Violation Escrow Fund	243	-	243	-	243
Total FY 2002 investments	**$ 28,188**	**$ (10,887)**	**$ 17,301**	**$ 1,722**	**$ 19,023**

5. Accounts Receivable, Net (in millions)

	FY 2003			FY 2002		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$ 490	$ -	$ 490	$ 445	$ -	$ 445
Non-intragovernmental						
Nuclear Waste Fund	2,966	-	2,966	2,928	-	2,928
Uranium Enrichment D&D Fund	731	-	731	894	-	894
Power marketing administrations	635	(73)	562	565	(73)	492
Petroleum Pricing Violation Escrow Fund	2,074	(2,058)	16	2,083	(2,067)	16
Credit programs	55	(26)	29	56	(26)	30
Other	145	(60)	85	151	(64)	87
Subtotal	$ 6,606	$ (2,217)	$ 4,389	$ 6,677	$ (2,230)	$ 4,447
Total accounts receivable	**$ 7,096**	**$ (2,217)**	**$ 4,879**	**$ 7,122**	**$ (2,230)**	**$ 4,892**

Intragovernmental accounts receivable primarily represent amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due for NWF and D&D Fund fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

The Petroleum Pricing Violation Escrow Fund receivables result from agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. The majority of these receivables are with individuals or firms that are in bankruptcy, or collection action is being taken by the Department of Justice. Many cases handled by the Department of Justice will result in complete write-offs or settlement agreements for amounts significantly less than the original agreement. Allowance accounts have been established to reflect the realistic potential for recovery of amounts owed. The methodology used to calculate the allowance accounts was derived through an intensive analysis of each case. The receivables were categorized based on the status of the case, the financial condition of the debtor, the collections received to date, and any pertinent information from the Office of General Counsel related to each case. Based on this analysis and categorization, percentages for the probability of collection were determined. The allowance account as of September 30, 2003, and 2002, includes interest receivable of $1,540 million and $1,546 million, respectively.

6. Regulatory Assets (in millions)

	FY 2003	FY 2002
Intragovernmental		
Appropriation refinancing asset	$ 4,690	$ 4,767
Non-intragovernmental		
Operating regulatory assets	$ 2,375	$ 2,343
Non-operating regulatory assets	4,038	3,932
Conservation and fish and wildlife projects	503	570
Other regulatory assets	366	197
Subtotal	$ 7,282	$ 7,042
Total regulatory assets	$ 11,972	$ 11,809

The Department's power marketing administrations record certain amounts as assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Appropriation Refinancing Asset

The Bonneville Power Administration (BPA) Appropriations Refinancing Act, 16 U.S.C. 8381, required that the outstanding balance of the Federal Columbia River Power System (FCRPS) Federal appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates of interest as of September 30, 1996. These appropriations include the unpaid balance of capital appropriations of the power generating assets of the Corps of Engineers (Corps) and Bureau of Reclamation associated with the FCRPS. BPA established a regulatory asset representing the repayment amount of the power generating assets that will be recovered in BPA rates. The Corps and the Bureau of Reclamation continue to own and operate these assets, with BPA having the responsibility to recover the costs of the assets from power ratepayers. This regulatory asset is being amortized over the same period as the assets are being depreciated by the Corps and Bureau of Reclamation (68 years). Annual amortization costs of $77 million were recognized in FY 2003 and FY 2002.

In accordance with SFAS No. 71, offsetting regulatory assets are recognized which represent the ability of BPA to repay this appropriated capital from the proceeds of power sales generated from the Corps and Bureau of Reclamation assets.

Operating Regulatory Assets

Operating Regulatory Assets are comprised primarily of BPA amounts. The BPA has acquired the generating capability of one operating nuclear power plant, as well as several hydroelectric projects. BPA pays the annual operating costs including debt service. These project costs are recovered through BPA's electric rates. Because these projects' current and future costs can be recovered through BPA's electric rates, the *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt.

Non-Operating Regulatory Assets

BPA has acquired all or part of the generating capability of four terminated nuclear power plants. The Government's contracts require BPA to pay all or part of the annual projects' budgets, including debt service of the terminated plants. Because these projects' current and future costs can be recovered through BPA's electric rates, the *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt.

Conservation and Fish and Wildlife Projects

The conservation and fish and wildlife projects consist of facilities constructed by BPA for the protection of fish and wildlife, and the mitigation of losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Northwest Power Act. BPA pays for the construction of the facilities and recovers the costs in rates but does not retain ownership of the facilities. These facilities are amortized and recovered in rates over 10 to 20-years for conservation and 15 years for fish and wildlife.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve, the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2003, and September 30, 2002, the Reserve contained crude oil with a historical cost of $16,741 million and $15,683 million, respectively. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Oil from the reserve may be sold only with the approval of Congress and the President of the United States. Included in the Strategic Petroleum Reserve is crude oil held for future Department of Defense (DOD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DOD. The crude oil purchased with DOD funding is commingled with the Department's stock and is valued at its historical cost of $106 million at September 30, 2003, and 2002 (see Notes 2 and 14).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. As of September 30, 2003, and 2002, the reserve contained petroleum distillate in the New England, New York, and New Jersey geographic area valued at historical costs of $77 million for FY 2003 and $75 million for FY 2002.

Nuclear Materials

Nuclear materials include weapons and related components, including those in the custody of the Department of Defense under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control/nonproliferation value and is instrumental to the U.S in ensuring that Russia continues towards the disposition of its weapons grade plutonium.

The Office of Nuclear Energy, Science and Technology has inventories amounting to a total of 19,755 metric tons of uranium hexafluoride. This total is segmented into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 metric tons of uranium associated with the natural uranium component of low-enriched uranium delivered under the U.S./Russia HEU Agreement in 1995 and 1996. Only 3,293 metric tons remain in the Department's inventories because 2,228 metric tons were sold consistent with section 3112 of the USEC Privatization Act.

The second stockpile of uranium, amounting to 11,000 metric tons, was purchased from Russia for $325 million consistent with P.L. 105-277. This material is the natural uranium component of low enriched uranium delivered under the U.S./Russia HEU Agreement in 1997 and 1998. Final disposition of the material will not occur until after 2009 based upon an international agreement between the U.S. and Russia that required the Department to maintain a 22,000 metric ton stockpile, which restricts the entry of the uranium into the commercial market until 2009.

The remaining uranium inventory stockpile of 5,462 metric tons is also restricted from sale into the commercial market until 2009. A limited sample and analysis indicates that a portion of the Department's stockpile of uranium hexafluoride may have technetium exceeding nuclear fuel specifications. If confirmed, the market value of the uranium, of which the carrying value exceeds $140 million, would be significantly reduced.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

Highly Enriched Uranium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons of the Department's highly enriched uranium (HEU) were excess to national security needs. Most of this material will be blended for sale as low-enriched uranium (LEU) and used over time as commercial nuclear reactor fuel to recover its value. The remaining portion of the material is already in the form of irradiated fuel or other waste forms, which require no processing prior to disposal. A provision for disposal of irradiated fuel is included in environmental liabilities. The carrying value of HEU for which the LEU blending product will have levels of contamination exceeding nuclear fuel specifications has been reduced to zero. A disposition liability for the estimated costs to process this "off-spec" material is included in environmental liabilities. Most of the "off-spec" material will be blended to LEU for use in Tennessee Valley Authority nuclear power reactors. Estimates of revenues and processing costs for surplus HEU were updated during FY 2003. Net revenues from sales of the remaining surplus HEU are expected to exceed the carrying value of the surplus HEU.

8. General Property, Plant and Equipment, Net (in millions)

	FY 2003			FY 2002		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$ 1,480	$ (731)	$ 749	$ 1,422	$ (689)	$ 733
Structures and facilities	31,986	(21,514)	10,472	31,584	(21,038)	10,546
Internal use software	297	(90)	207	172	(45)	127
Equipment	14,772	(10,294)	4,478	14,534	(10,271)	4,263
Natural resources	60	(9)	51	106	(9)	97
Construction work in process	5,300	-	5,300	4,498	-	4,498
Total property, plant and equipment	$ 53,895	$ (32,638)	$ 21,257	$ 52,316	$ (32,052)	$ 20,264

9. Other Non-Intragovernmental Assets (in millions)

	FY 2003	FY 2002
Prepaid pension plan costs (Note 16)	$ 2,296	$ 2,493
Oil due from others	440	397
Prepayments	326	308
Other	134	186
Total other non-intragovernmental assets	**$ 3,196**	**$ 3,384**

Oil Due from Others

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) of differing quality to be delivered to the Strategic Petroleum Reserve. As a result of companies deferring the delivery of some of the exchange oil, the Department earned additional oil as a premium. The value of the deferred exchange and premium barrels of oil as of September 30, 2003, and 2002, was $414 million and $96 million, respectively. The value of the receivable in kind for the remaining oil as of September 30, 2003, and 2002, was $18 million and $296 million, respectively. In addition to oil due from exchange transactions, $8 million and $5 million, respectively, in oil was due from other lease activities at the Strategic Petroleum Reserve as of September 30, 2003, and 2002.

10. Liabilities Not Covered By Budgetary Resources (in millions)

	FY 2003	FY 2002
Intragovernmental		
Appropriated capital owed (Note 12)	$ 2,906	$ 2,868
Other	14	18
Total intragovernmental	$ 2,920	$ 2,886
Deferred revenues (Note 13)		
Nuclear Waste Fund	16,932	15,743
Environmental liabilities (Note 15)	180,999	207,019
Pension and other actuarial liabilities (Note 16)	9,926	8,892
Other liabilities		
Environment, safety and health compliance activities (Note 14)	820	736
Accrued annual leave for Federal employees	86	104
Other	145	135
Contingencies (Note 17)	2,881	2,009
Total liabilities not covered by budgetary resources	$ 214,709	$ 237,524
Total liabilities covered by budgetary resources	23,208	23,608
Total liabilities	$ 237,917	$ 261,132

11. Debt (in millions)

	FY 2003			FY 2002		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental						
Borrowing from Treasury	$ 2,770	$ (72)	$ 2,698	$ 2,689	$ 81	$ 2,770
Refinanced appropriations	3,064	(349)	2,715	3,524	(460)	3,064
Capitalization adjustment	2,193	(68)	2,125	2,260	(67)	2,193
Subtotal	$ 8,027	$ (489)	$ 7,538	$ 8,473	$ (446)	$ 8,027
Non-intragovernmental						
Non-Federal projects	6,302	141	6,443	6,241	61	6,302
Total debt	**$ 14,329**	**$ (348)**	**$ 13,981**	**$ 14,714**	**$ (385)**	**$ 14,329**

Borrowing from Treasury

To finance its capital programs, the BPA is authorized to issue to Treasury up to $4,450 million of interest-bearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion ($1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2003, $305 million of this reserved amount and $2,393 million of other borrowings were outstanding. U.S. Treasury borrowing maturity dates extend through 2034. The weighted average interest rates as of September 30, 2003, and 2002, were

5.73 percent and 6.01 percent, respectively. These rates exceed the rates which could be obtained currently. As a result, the fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2003, and 2002, for similar maturities, exceeds carrying value by approximately $304 million and $497 million, respectively. BPA’s policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Refinanced Appropriations

The BPA Appropriations Refinancing Act of 1994 required that the unpaid balance, as of September 30, 1996, of the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates. The weighted average interest rate was 7.0 percent as of September 30, 2003, and 6.9 percent as of September 30, 2002. The majority of the refinanced appropriations represent the unpaid capital appropriations of the Corps of Engineers and the Bureau of Reclamation (see Note 6). The remaining period of repayment is 33 years. Repayment amounts are determined based on the time the facility was placed in service using the weighted average service life of the associated investment, not to exceed 50 years.

Capitalization Adjustment

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1994 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over the 33-year remaining repayment period. Amortization of the capitalization adjustment was $68 million and $67 million in FY 2003 and 2002, respectively. The weighted average interest rate was 7.0 percent as of September 30, 2003, and 6.9 percent as of September 30, 2002.

Non-Federal Projects

As discussed in Note 6, the non-Federal projects debt represents the BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of five nuclear power plants as well as several hydroelectric projects.

The following table summarizes future principal payments required for the debt described above:

(in millions)

Fiscal Year	Borrowing from Treasury	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2004	$ 176	$ 17	$ 68	$ 276
2005	529	-	68	242
2006	515	17	65	255
2007	196	-	65	296
2008	245	-	65	309
2009+	1,037	2,681	1,794	5,065
Total	**$2,698**	**$ 2,715**	**$ 2,125**	**$ 6,443**

12. Appropriated Capital Owed

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction and operation of power projects which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid to Treasury within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except the BPA, receives an annual appropriation to fund operation and maintenance expenses. These appropriated funds are repaid to Treasury and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a borrowing from Treasury and Interior, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used. During FY 2003, OMB began a project to review the accounting and reporting of the foregoing transactions, which are referred to by OMB as "appropriated debt," and plans to submit its findings and recommendations to the Accounting and Auditing Policy Committee (AAPC) of the Federal Accounting Standards Advisory Board for interpretation and guidance in FY 2004. The conclusions of the AAPC may require a change in accounting and reporting for these transactions.

Except for the appropriation refinancing asset described in Note 6, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 26).

13. Deferred Revenues (in millions)

	FY 2003	FY 2002
Intragovernmental	$ 158	$ 44
Non-intragovernmental		
Nuclear Waste Fund (Note 10)	$ 16,932	$ 15,743
Power marketing administrations	896	692
Reimbursable work advances	170	176
Other	42	50
Subtotal	$ 18,040	$ 16,661
Total deferred revenues	**$ 18,198**	**$ 16,705**

Nuclear Waste Fund

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Annual adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues primarily represent amounts paid to BPA from participants under various alternating current intertie capacity agreements and load diversification fees paid to BPA by various customers. These one-time payments cover the remaining term of the customer's existing contractual agreement and are recognized as revenues as contract commitments are satisfied.

14. Other Liabilities (in millions)

Intragovernmental	FY 2003	FY 2002
Oil held for Department of Defense (Notes 2 and 7)	$ 106	$ 106
Other	165	166
Total other intragovernmental liabilities	$ 271	$ 272
Non-intragovernmental		
Environment, safety and health compliance activities (Notes 10 and 25)	$ 820	$ 736
Accrued payroll and benefits	975	893
Petroleum Pricing Violation Escrow Fund (Note 2)	532	536
Naval Petroleum Reserve Deposit Fund (Note 2)	323	323
Elk Hills School Land Fund (Note 2)	154	190
Other	306	328
Subtotal	$ 3,110	$ 3,006
Total other liabilities	$ 3,381	$ 3,278

The current portion of other liabilities includes accrued payroll and benefits and most of the amounts captioned as "other" above. The remaining amounts are predominantly non-current liabilities.

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The FY 2003 change in the ES&H liability is due to (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's Orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees.

Elk Hills School Land Fund

This balance represents the portion of the Naval Petroleum Reserve at Elk Hills' sales proceeds being retained for future disbursements to the State of California pending authorization of the Congress. In FY 2003 and FY 2002, the Department made a $36 million payment pursuant to a legislative directive.

Other Liabilities

This balance consists primarily of liabilities associated with other deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

15. Environmental Liabilities (in millions)

	FY 2003	FY 2002
Environmental Management Program	$ 117,749	
Legacy environmental liabilities - other	17,062	
Total legacy environmental liabilities	$ 134,811	$ 161,718
Active and surplus facilities	27,481	26,643
High-level waste and spent nuclear fuel disposition	14,919	14,767
Other	6,223	6,501
Total environmental liabilities	$ 183,434	$ 209,629
Amount funded by current appropriations	(2,435)	(2,610)
Total unfunded environmental liabilities	$ 180,999	$ 207,019
Changes in environmental liabilities		
Total environmental liabilities, beginning balance	$ 209,629	$ 238,349
Changes to environmental liability estimates		
Legacy environmental liabilities	(19,885)	(16,142)
Active and surplus facilities	542	(4,662)
High-level waste and spent nuclear fuel disposition	443	470
Other	(135)	(1,643)
Total changes in estimates (Notes 21 and 25)	$ (19,035)	$ (21,977)
Operating expenditures related to remediation activities (Note 20)	(6,242)	(6,013)
Capital expenditures related to remediation activities	(918)	(730)
Total environmental liabilties	**$ 183,434**	**$ 209,629**

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a pristine condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving pristine conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Higher funding tends to accelerate cleanup work and reduce cleanup costs; lower funding tends to delay work and increase costs. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The liabilities as of September 30, 2003, and September 30, 2002, are stated in FY 2003 dollars and FY 2002 dollars, respectively, as required by generally accepted accounting standards for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Components of the Liability

Environmental Management Program Estimates

The Department's Office of Environmental Management (EM) is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2003 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission by 2035 and achieve savings of nearly $40 billion compared to the FY 2001 estimate. This strategy provides for a site-by-site projection of the work required to complete all EM projects while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by Native American tribes, regulatory agencies, and other stakeholders.

During FY 2002, EM completed a Top-to-Bottom Review (Review) to find efficient and cost effective ways to achieve greater real cleanup and risk reduction. The Review's major observation was that EM has been oriented towards managing risks rather than actually reducing the risks to the public, workers, and the environment. Based upon the Review's recommendations, EM undertook a number of management reforms to restructure and focus the cleanup program. These reforms include 1) redefining and aligning acquisition strategies, 2) revitalizing human capital, 3) implementing a new budget structure that clearly identifies risk reduction and closure activities, and 4) implementing a strict configuration control system of key management parameters of the cleanup program. In addition, field offices are in the process of reviewing/revising site baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective cleanup sites. This fundamental restructuring and focusing of the cleanup program has enabled EM to reduce its life-cycle cost estimates during FY 2003. Achievement of accelerated cleanup goals is largely contingent upon receipt of anticipated funding, yet to be approved by Congress, during FY 2004 and succeeding years.

In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and/or regulatory decisions have not been made for many sites. Site specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.

- The first geologic repository for high-level radioactive waste is scheduled to open in 2010. At that time, it will accept spent nuclear fuel from commercial utilities and the Department's high-level waste and spent nuclear fuel. Delays in opening the repository could cause EM project costs to increase.

- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.

- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. Examples of sites for which cleanup costs are excluded are the nuclear explosion test areas at the Nevada Test Site.

- The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes, generated by the Department and others, that are not suitable for near-surface disposal. The Department has not determined a disposal path and has therefore included only storage and monitoring costs for these wastes in the liability. The disposal costs for these wastes are not expected to be material in relation to the Department's environmental liabilities.

Changes to the EM baseline estimates during FY 2003 and 2002 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach, or scope; regulatory changes; cleanup activities performed; transfers out of the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below.

Legacy Environmental Liabilities - Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess materials for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated through 2078. Some post-cleanup monitoring and other long-term stewardship activities are expected to continue beyond 2078, but the Department believes the costs of these activities cannot reasonably be estimated.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability at September 30, 2003, amounted to $297 million at September 30, 2003, and $275 million at September 30, 2002.

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel, plus the unfunded portion of actual costs incurred to date and the accrued interest on the unfunded costs. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2003 and FY 2002 resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other Environmental Liabilities

Other environmental liabilities consist of liabilities for disposition of surplus plutonium, depleted uranium, and highly enriched uranium.

16. Pension and Other Actuarial Liabilities (in millions)

	FY 2003	FY 2002
Contractor pension plans	$ 1,823	$ 1,387
Contractor postretirement benefits other than pensions	7,978	7,387
Contractor disability and life insurance plans	23	22
Federal Employees' Compensation Act	102	96
Total pension and other actuarial liabilities	**$ 9,926**	**$ 8,892**

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. Since the Department approves the contractors' pension and postretirement benefit plans and is ultimately responsible for funding the plans, the responsibility for any related liabilities rests with the Department.

The Department reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

The Department follows SFAS No. 87, *Employers' Accounting for Pensions*, for contractor employees for whom the Department has a continuing pension obligation. As of September 30, 2003, the Department has prepaid pension costs of $2,305 million before minimum liability adjustment and $2,292 after minimum liability adjustment; accrued pension costs of $832 million before minimum liability adjustment and $1,823 million after minimum liability adjustment. The Department has a continuing obligation for a variety of contractor-sponsored pension plans (39 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (30 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Sixteen of the plans cover nonunion employees only; 10 cover union employees only; and 19 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan to not exceed the greater of (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d)(8) of ERISA. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, Government bonds, real estate, venture capital, international investments, and insurance contracts.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption consistent with an expected long-term inflation rate of 3.0 percent for the entire U.S. economy with adjustments to reflect regional or industry rates, as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used in determining the net periodic pension costs. The weighted average discount rates of 6.5 percent for FY 2003 and 7.25 percent for FY 2002 were used; the average long-term rate of return on assets was 7.90 percent for FY 2003 and 8.16 percent for FY 2002; and the average rate of compensation increase was 4.6 percent for FY 2003 and 4.5 percent for FY 2002.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2003 and 2002 were 6.0 percent and 6.5 percent respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

Contractor Postretirement Benefits Other Than Pensions

The Department follows SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* for contractor employees for whom the Department has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2003, and 2002, the Department has an accrued PRB liability of $7,978 and $7,387, respectively. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (40 contractors), dental (19 contractors), life insurance (24 contractors), and Medicare Part B premium reimbursement (4 contractors). Thirty-eight of the contractors sponsor a traditional indemnity plan, a PPO, an HMO, or similar plan. Seventeen of these also have a point of service plan, an HMO, or similar plan. One additional contractor has only a point of service plan, an HMO, or similar plan.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade down from 11.0 percent in 2003 to 5.5 percent in 2012 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade down from 12.0 percent in 2003 to 5.5 percent in 2012 and later. The dental trend rates at all ages grade down from 7.5 percent in 2003 to 5.0 percent in 2012 and later.

The weighted average discount rates of 6.5 percent for FY 2003 and 7.25 percent for FY 2002, and the average long-term rate of return on assets of 7.46 percent in FY 2003 and 7.63 percent for FY 2002 were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2003 and 2002, were 6.0 percent and 6.5 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

	Pension Benefits		**Other Postretirement Benefits**	
(in millions)	2003	2002	2003	2002
Reconciliation of funded status				
Accumulated benefit obligation	$ 19,600	$ 17,244		
Effect of future compensation increases	3,450	2,650		
Benefit obligation	$ 23,050	$ 19,894	$ 9,877	$ 8,449
Plan assets	19,402	18,924	156	123
Funded status	$ (3,648)	$ (970)	$ (9,721)	$ (8,326)
Unrecognized net (asset)/obligation at transition	(869)	(987)		
Unrecognized prior service cost	984	1,042	(232)	(171)
Unrecognized actuarial (gain)/loss	5,007	2,920	1,979	1,113
Net amount recognized	$ 1,474	$ 2,005	$ (7,974)	$ (7,384)
Minimum liability adjustment	(1,005)	(902)	-	-
Prepaid/(accrued) benefit cost after minimum liability	$ 469	$ 1,103	$ (7,974)	$ (7,384)
Total prepaid benefit cost after minimum liability	2,292	2,490	4	3
Total (accrued) benefit cost after minimum liability	$ (1,823)	$ (1,387)	$ (7,978)	$ (7,387)
Components of net periodic costs				
Service costs	$ 646	$ 509	$ 226	$ 184
Interest costs	1,308	1,207	553	504
Actual return on plan assets	(1,452)	(1,612)	(11)	(8)
Net amortization and deferral	173	(93)	85	(16)
Impact of curtailment or special termination benefits	29	23	-	-
Total net periodic costs	$ 704	$ 34	$ 853	$ 664
Contributions and benefit payments				
Employer contributions	$ 167	$ 75	$ 264	$ 243
Participant contributions	4	4	57	42
Benefit payments	863	810	331 *	295 *

*Includes $11 million and $10 million paid from plan assets for 2003 and 2002, respectively.

17. Contingencies (in millions)

	FY 2003	FY 2002
Spent nuclear fuel litigation	$ 2,000	$ 2,000
Waste Incidental to Reprocessing Litigation (Notes 21 and 25)	850	-
Other	31	9
Total contingencies	**$ 2,881**	**$ 2,009**

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where a loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government for which the Department, unless required by law, is not required to reimburse from its appropriated funds. The following are significant contingencies:

- *Spent Nuclear Fuel Litigation* - In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA and does not anticipate there will be such a facility until at least 2010, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation has ensued as a result of this delay.

  To date, that litigation has conclusively established that the Department's obligation to begin disposal of SNF is legally binding notwithstanding the lack of a facility to receive SNF. Currently, 34 utilities have filed suits in the Court of Federal Claims for breach of contract in which they collectively seek $6.18 billion. The industry is reported to estimate that damages for all utilities with which the Department has contracts will be at least $50 billion. The Department, however, believes that the industry estimate is highly inflated and that, if the Department prevails on some key disputed issues, the actual total damages suffered by all utilities as a result of the delay in beginning SNF disposal is more likely to be in the range of between $2 billion and $3 billion and has recorded a liability for the low end of that range. However, if several recent adverse rulings on dispositive motions by the various trial courts accurately reflect how those issues will ultimately be resolved, the Government's damages prediction is likely to increase significantly.

  Liability is certain, and in most of the cases orders have been entered affirming the Government's liability. Other than ascertaining the actual amount of damages, the only outstanding issue is how that liability is to be satisfied. At this time, it is uncertain whether damages would be paid from the Judgment Fund, the Nuclear Waste Fund, or some other source.

- *Waste Incidental to Reprocessing (WIR) Litigation* – In July 2003 a Federal District Court in Idaho ruled that the Department's plan to reclassify a portion of its waste would violate provisions of the Nuclear Waste Policy Act of 1982. The Department is both appealing the court ruling and has proposed legislative language to clarify the Department's authority to classify waste under the Act. If the appeal is not successful, and the Nuclear Waste Policy Act is not modified, the Department will need to revise its plan for treatment and disposal of the waste. The resulting increase in the Department's environmental liabilities could exceed $100 billion. The Department recorded a liability of $850 million in FY 2003, representing the estimated cost impact on the Department's high-level waste program pending resolution of the WIR litigation.

- *Alleged Exposures to Radioactive and/or Toxic Substances* - A number of class action and/or multiple plaintiff tort suits have been filed against the Department's current and former contractors and, in some cases, against individual managers and supervisors of the Department and its contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of past operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon) and Mound, Ohio; and Brookhaven, New York. Collectively, damages sought in these cases exceed $134 billion.

  These cases are being vigorously defended, and, while in some cases proceedings are not far enough advanced to evaluate their likely outcome, in some of these cases substantially all of the plaintiffs' claims have been dismissed by the courts, and the likelihood of an unfavorable outcome is remote. Accordingly, the Department believes that, to the extent that there is a reasonable possibility of an unfavorable outcome in any of these cases, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek. No related liabilities are recorded in the Department's financial statements.

- *Uranium Enrichment Services Pricing* - This litigation concerns whether electric utilities that purchased uranium enrichment services from the Department are entitled to retroactive price reductions based on the alleged inclusion of inappropriate costs in the prices the Government charged for enrichment services. Six complaints have been filed involving the claims of 35 utilities. In aggregate, the pending cases seek approximately $808 million. In 2003, the Court of Federal Claims entered judgment in favor of the United States in the lead case, and the Plaintiffs have filed a notice of appeal. No related liabilities are recorded in the Department's financial statements.

- *New Mexico Environment Department Final Corrective Action Order* - In 2002, the New Mexico Environment Department issued an Imminent and Substantial Endangerment Determination and a related corrective action order to the Los Alamos National Laboratory alleging certain legacy and environmental conditions occurred from the operations of the laboratory that resulted in the release of radioactive, hazardous, and solid wastes which posed an imminent and substantial endangerment to human health or the environment. The Department and its contractor have filed protective lawsuits appealing and challenging the New Mexico Environment Department's order. Although the issues raised in the order are not yet resolved, the Department estimates that if it does not prevail, the cost of implementing the requirements of the order total $480 million. No related liabilities are recorded in the Department's financial statements.

- *Challenges to the Yucca Mountain Repository* - The State of Nevada has filed four actions against the Department in the U.S. Court of Appeals for the District of Columbia challenging: 1) the adequacy of the Department's repository siting guidelines; 2) the adequacy of the Department's Environmental Impact Statement for Yucca Mountain; 3) the recommendation by the Secretary to the President and the President's recommendation to Congress of the Yucca Mountain site; and 4) the constitutionality of the Yucca Mountain Development Act. The Department is vigorously contesting these actions. An adverse ruling by the court in any of these cases could result in additional costs and additional damages in the spent nuclear fuel litigation. No related liabilities are recorded in the Department's financial statements.

- *Termination of a Fixed-Priced Remediation Subcontract at the Idaho National Engineering and Environmental Laboratory (INEEL)* - In 1998, the Department's former Management and Operating contractor for INEEL, Lockheed Martin Idaho Technologies Co. (LMITCO), terminated the Pit 9 Comprehensive Demonstration Project Subcontract with Lockheed Martin Advanced Environmental Systems, Inc. (LMAES) for default and thereafter filed suit against LMAES in the United States District Court for the District of Idaho seeking return of $54 million LMITCO had advanced for that subcontract and for other additional remedies. In response, LMAES filed a counterclaim against LMITCO for $317 million. A bench trial began in the District Court on August 4, 2003. No related liabilities are recorded in the Department's financial statements.

18. Earned Revenues (in millions)

	FY 2003		FY 2002	
Naval Reactors				
Intragovernmental		$ (22)		$ (17)
Energy Security				
Public	$ (4,566)		$ (4,234)	
Intragovernmental	(60)		(102)	
Total Energy Security		(4,626)		(4,336)
Environmental Management				
Public	$ (16)		$ (17)	
Intragovernmental	(144)		(151)	
Total Environmental Management		(160)		(168)
Nuclear Waste				
Public	$ (723)		$ (765)	
Intragovernmental	(792)		(897)	
Less Deferred Revenue Adjustment	1,189		1,366	
Total Nuclear Waste		(326)		(296)
Reimbursable Programs				
Public	$ (392)		$ (398)	
Intragovernmental	(1,938)		(1,645)	
Total Reimbursable Programs		(2,330)		(2,043)
Other Programs				
Federal Energy Regulatory Commission				
Public (Note 19)	$ (203)		$ (192)	
Other				
Public	(19)		(31)	
Total Other Programs		(222)		(223)
Total earned revenues		**$ (7,686)**		**$ (7,083)**

FY 2002 amounts have been reclassified to conform with the FY 2003 presentation of the *Consolidated Statements of Net Cost.*

Energy Security

These revenues primarily result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations and maintenance costs, repay the capital investments with interest, and assist capital repayment of other features and certain projects. Revenues collected by the Southeastern, Southwestern, and Western Area power marketing administrations on behalf of other agencies are reported as custodial activity (see Note 26).

Environmental Management

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning DOE's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Interest earned on accumulated funds in excess of those needed to pay current program costs totaled $135 million and $141 million for FY 2003 and FY 2002, respectively.

Nuclear Waste

The Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of $728 million and $716 million were assessed in FY 2003 and FY 2002, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $787 million and $907 million for FY 2003 and FY 2002, respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., as costs are incurred for the Civilian Radioactive Waste Management program).

Reimbursable Programs

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of Federally funded technologies to the private sector for the benefit of the U.S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost and to other Federal agencies at the Department's full cost less depreciation. In some cases, the full cost information reported by the Department in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; and the National Defense Authorization Act for Fiscal Year 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were $1,949 million and $1,670 million for FY 2003 and FY 2002, respectively.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing, administration, and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity.

19. Supporting Schedule of Net Costs for Other Programs (in millions)

	FY 2003		FY 2002	
Federal Energy Regulatory Commission				
Program costs - public	$ 203		$ 193	
Less earned revenues (Note 18)	(203)		(192)	
		$ -		$ 1
Inspector General		36		34
Environment Safety and Health		138		137
Intelligence		39		36
Counterintelligence		47		51
Independent Oversight and Performance Assurance		24		24
Nuclear Safeguards and Security		192		142
Other programs - public				
Program costs	$ 45		$ 42	
Less earned revenues (Note 18)	(19)		(31)	
		26		11
Total net cost for other programs		**$ 502**		**$ 436**

FY 2002 amounts have been reclassified to conform with the FY 2003 presentation of the *Consolidated Statements of Net Cost.*

20. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations. These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

21. Costs Not Assigned (in millions)

	FY 2003	FY 2002
Change in unfunded environmental liability estimates (Note 15)	$ (19,035)	$ (21,977)
Changes in contractor pension and PRB estimates (Notes 9 & 16)	1,224	1,147
Waste Incidental to Reprocessing Litigation (Note 17)	850	-
Change in unfunded safety and health liabilities (Note 14)	84	113
Change in compensation program for occupational illnesses	(267)	(42)
Other	95	36
Total	**$ (17,049)**	**$ (20,723)**

Compensation Program for Occupational Illnesses

Public Law 106-398, the Energy Employees Occupational Illness Compensation Program Act of 2000, authorized compensation for certain illnesses suffered by employees of the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Covered illnesses include cancers resulting from exposure to radiation; chronic beryllium disease; silicosis; and other illnesses arising from exposure to toxic substances during employment at atomic weapons facilities. In general, each employee and survivors of deceased employees eligible for compensation will receive compensation for the costs of medical care related to covered illness(es) and a choice of either lost wages or a lump sum payment of $200,000. The law makes future payments under this program the responsibility of the Department of Labor. Therefore, the remaining liability is not recorded by the Department. The amount of the change in total liability is recognized by the Department as an imputed cost and as an imputed financing source. During FY 2003 the remaining liability was reduced by $267 million.

On October 15, 1990, the Radiation Exposure Compensation Act (RECA) was enacted providing for payments to individuals who contracted certain cancers and other serious diseases presumably as a result of their exposures to radiation released during above ground nuclear weapons tests or as a result of their employment associated with the uranium mining industry during the Cold War era. RECA provided that the Department of Justice administer the program. This program is similar to the Compensation Program for Occupational Illnesses noted above. The remaining liability under the RECA program is not recorded by, and is not the responsibility of, the Department. The amount of the change in the accrued liability from September 30, 2001, or from September 30, 2002, to 2003, is not available from the Department of Justice and is not considered material to the Department's imputed costs or imputed financing sources for FY 2002 or 2003.

22. Net Cost of Transferred Operations

The Homeland Security Act of 2002 created the Department of Homeland Security (DHS) to prevent terrorist attacks within the United States and to reduce the vulnerabilities of the Unites States to terrorism. In accordance with the Homeland Security Act of 2002, the Department transferred certain functions to DHS as of March 1, 2003. The cost of these functions prior to their transfer to DHS is reported as "Net Cost of Transferred Operations" on the *Consolidated Statements of Net Cost*. The specific functions transferred include:

- The National Infrastructure Simulation and Analysis Center and other elements of the Energy Security and Assurance Program;

- The chemical and biological national security and supporting programs and activities of the nonproliferation and verification research and development program;

- The nuclear smuggling programs and activities within the proliferation detection program of the nonproliferation and verification research and development program;
- The nuclear assessment program activities within the assessment, detection, and cooperation program of the international materials protection and cooperation program;
- Life sciences activities of the biological and environmental research program related to microbial pathogens;
- The Environmental Measurements Laboratory;
- The advanced scientific computing research program activities at Lawrence Livermore National Laboratory.

23. Nuclear Waste Fund Offsetting Receipts, Deferred

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the Nuclear Waste Fund are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the unrealized market value adjustments for investments are reported as offsetting receipts on the *Consolidated Statements of Financing*. Therefore, a reconciling amount is reported for that portion of the offsetting receipts for which revenues are not recognized in the current period.

24. Statement of Budgetary Resources (in millions)

The *Statement of Budgetary Resources* is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

Details of Obligations Incurred:

	FY 2003	FY 2002
Direct, subject to apportionment	$ 22,732	$ 22,000
Direct, not subject to apportionment	3,483	3,947
Reimbursable, subject to apportionment	3,530	2,731
Total obligations incurred	**$ 29,745**	**$ 28,678**

Adjustments to Beginning Balances of Budgetary Resources:

		FY 2003		FY 2002
Prior year unobligated balance, net - end of period				
Available, apportioned	$	1,501	$	1,646
Exempt from apportionment		9		131
Not available		1,642		906
Total - prior year unobligated balance	$	3,152	$	2,683
Other Adjustments		(41)		(84)
Prior year balance temporarily not available pursuant to public		40		451
Current year unobligated balance, start of period	**$**	**3,151**	**$**	**3,050**

Unobligated Balances Not Available:

		FY 2003		FY 2002
United States Enrichment Corporation Fund	$	1,301	$	1,258
Reimbursable work/collections in excess of amount anticipated		299		371
Prior year deobligations in excess of apportioned amount		194		10
Expired appropriations and other amounts not apportioned		9		3
Total unobligated balances not available	**$**	**1,803**	**$**	**1,642**

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

Reconciliation to the Budget:

	FY 2003			FY 2002		
	Budgetary Resources	Obligations Incurred	Outlays	Budgetary Resources	Obligations Incurred	Outlays
Combined Statement of Budgetary Resources	$ 33,353	$ 29,745	$ 21,721	$ 31,830	$ 28,678	$ 21,237
Other BPA adjustments				53	53	
OMB adjustments made to exclude programs transferred to DHS				(118)	(106)	(93)
Expired accounts	(9)			(9)	2	
Other				5	1	(1)
Budget of the United States Government	$ 33,344	$ 29,745	$ 21,721	$ 31,761	$ 28,628	$ 21,143

The FY 2003 *Combined Statement of Budgetary Resources* final reconciliation will be done once the President's Budget is published in February 2004. The FY 2002 *Combined Statement of Budgetary Resources* is reconciled to the President's Budget that was published in February 2003. Other BPA adjustments consist primarily of adjustments made to bring BPA's original budget execution data submission into agreement with the President's Budget.

25. Increases/(Decreases) in Unfunded Liabilities (in millions)

	FY 2003	FY 2002
Change in unfunded environmental liability estimates (Note 15)	$ (19,035)	$ (21,977)
Change in unfunded safety and health liabilities (Note 14)	84	113
Change in contractor net pension and PRB liabilities (Notes 9 and 16)	1,224	1,147
Waste Incidental to Reprocessing Litigation (Note 17)	850	-
Change in other unfunded liabilities	30	(3)
Total increases/(decreases) in unfunded liabilities	**$ (16,847)**	**$ (20,720)**

26. Custodial Activities (in millions)

	FY 2003	FY 2002
Cash Collections		
Power marketing administrations	$ 512	$ 496
Petroleum Pricing Violation Escrow Fund	4	9
Other	20	16
Total cash collections for custodial activities	**$ 536**	**$ 521**

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Marketing Administrations are responsible for collecting and remitting to the Department of the Treasury revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, Army Corps of Engineers; the Department of Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance, which is invested in U.S. Treasury Bills and Certificates of Deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

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Consolidating Schedules

Consolidating Schedules - Balance Sheets

As of September 30, 2003 and 2002

($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
ASSETS			
Intragovernmental			
Fund Balance with Treasury	$ 88	$ 846	$ 13,890
Investments, Net	-	-	18,849
Accounts Receivable, Net	-	31	1,532
Regulatory Assets	-	4,690	-
Other	-	4	35
Total Intragovernmental	$ 88	$ 5,571	$ 34,306
Investments, Net	-	-	256
Accounts Receivable, Net	40	531	3,818
Inventory, Net			
Strategic Petroleum & Northeast Home Heating Oil Reserves	-	-	16,818
Nuclear Materials	-	-	22,144
Other	-	99	354
General Property, Plant, and Equipment, Net	11	5,385	15,861
Regulatory Assets	-	7,282	-
Other	-	374	2,822
Total Assets	$ 139	$ 19,242	$ 96,379
LIABILITIES			
Intragovernmental			
Accounts Payable	1	37	102
Debt	-	7,538	-
Appropriated Capital Owed	-	2,906	-
Deferred Revenues	-	105	1,141
Other	42	63	166
Total Intragovernmental	$ 43	$ 10,649	$ 1,409
Accounts Payable	6	234	2,847
Debt	-	6,443	-
Deferred Revenues	-	896	17,144
Environmental Liabilities	-	-	183,434
Pension and Other Actuarial Liabilities	-	58	9,868
Other	68	59	2,983
Contingencies	-	-	2,881
Total Liabilities	$ 117	$ 18,339	$ 220,566
NET POSITION			
Unexpended Appropriations	15	10	8,875
Cumulative Results of Operations	7	893	(133,062)
Total Net Position	$ 22	$ 903	$ (124,187)
Total Liabilities and Net Position	$ 139	$ 19,242	$ 96,379

See independent auditors' report

		FY 2002				
Eliminations	Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ 14,824	$ 94	$ 551	$ 13,464	$ -	$ 14,109
-	18,849	-	-	17,058	-	17,058
(1,073)	490	21	13	1,660	(1,249)	445
-	4,690	-	4,767	-	-	4,767
(32)	7	-	9	50	(32)	27
$ (1,105)	$ 38,860	$ 115	$ 5,340	$ 32,233	$ (1,282)	$ 36,406
-	256	-	-	243	-	243
-	4,389	15	479	3,953	-	4,447
-	16,818	-	-	15,758	-	15,758
-	22,144	-	-	22,027	-	22,027
-	453	-	99	352	-	451
-	21,257	14	5,205	15,045	-	20,264
-	7,282	-	7,042	-	-	7,042
-	3,196	-	425	2,959	-	3,384
$ (1,105)	$ 114,655	$ 144	$ 18,590	$ 92,570	$ (1,282)	$ 110,022
(17)	123	1	36	99	(37)	99
-	7,538	-	8,027	-	-	8,027
-	2,906	-	2,868	-	-	2,868
(1,088)	158	-	9	1,281	(1,246)	44
-	271	59	60	175	(22)	272
$ (1,105)	$ 10,996	$ 60	$ 11,000	$ 1,555	$ (1,305)	$ 11,310
-	3,087	11	250	3,039	23	3,323
-	6,443	-	6,302	-	-	6,302
-	18,040	-	692	15,969	-	16,661
-	183,434	-	-	209,629	-	209,629
-	9,926	-	52	8,840	-	8,892
-	3,110	46	65	2,895	-	3,006
-	2,881	-	-	2,009	-	2,009
$ (1,105)	$ 237,917	$ 117	$ 18,361	$ 243,936	$ (1,282)	$ 261,132
-	8,900	-	11	8,195	-	8,206
-	(132,162)	27	218	(159,561)	-	(159,316)
$ -	$ (123,262)	$ 27	$ 229	$ (151,366)	$ -	$ (151,110)
$ (1,105)	$ 114,655	$ 144	$ 18,590	$ 92,570	$ (1,282)	$ 110,022

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Consolidating Schedules of Net Cost

For Years Ended September 30, 2003 and 2002
($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
GENERAL GOALS			
Nuclear Weapons Stewardship:			
Program Costs	$ -	$ -	$ 5,214
Nuclear Nonproliferation:			
Program Costs	$ -	$ -	$ 968
Naval Reactors:			
Program Costs	-	-	687
Less: Earned Revenues	-	-	(22)
Net Cost of Naval Reactors	$ -	$ -	$ 665
Energy Security:			
Program Costs	-	3,894	2,392
Less: Earned Revenues	-	(4,552)	(112)
Net Cost of Energy Security	$ -	$ (658)	$ 2,280
World-Class Scientific Research Capacity:			
Program Costs	-	-	3,068
Environmental Management:			
Program Costs	-	-	6,720
Less: Earned Revenues	-	-	(160)
Net Cost of Environmental Management	$ -	$ -	$ 6,560
Nuclear Waste:			
Program Costs	-	-	421
Less: Earned Revenues	-	-	(157)
Net Cost of Nuclear Waste	$ -	$ -	$ 264
OTHER PROGRAMS:			
Reimbursable Programs:			
Program Costs	-	-	2,351
Less: Earned Revenues	-	-	(2,330)
Net Cost of Reimbursable Programs	$ -	$ -	$ 21
Other Programs			
Program Costs	203	-	609
Less: Earned Revenues	(202)	-	(108)
Net Cost of Other Programs	$ 1	$ -	$ 501
Other Allocable Costs	-	-	-
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(6,242)
Costs Not Assigned	-	-	(17,218)
Net Cost of Continuing Operations	$ 1	$ (658)	$ (3,919)
Net Cost of Transferred Operations	-	-	44
Net Cost of Operations	$ 1	$ (658)	$ (3,875)

See independent auditors' report

		FY 2002				
Eliminations	Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ 5,214	$ -	$ -	$ 4,864	$ -	$ 4,864
$ -	$ 968	$ -	$ -	$ 757	$ -	$ 757
-	687	-	-	674	-	674
-	(22)	-	-	(17)	-	(17)
$ -	$ 665	$ -	$ -	$ 657	$ -	$ 657
(51)	6,235	-	4,143	2,281	(47)	6,377
38	(4,626)	-	(4,237)	(129)	30	(4,336)
$ (13)	$ 1,609	$ -	$ (94)	$ 2,152	$ (17)	$ 2,041
-	3,068	-	-	2,830	-	2,830
(433)	6,287	-	-	6,580	(420)	6,160
-	(160)	-	-	(168)	-	(168)
$ (433)	$ 6,127	$ -	$ -	$ 6,412	$ (420)	$ 5,992
-	421	-	-	377	-	377
(169)	(326)	-	-	(127)	(169)	(296)
$ (169)	$ 95	$ -	$ -	$ 250	$ (169)	$ 81
-	2,351	-	-	2,079	-	2,079
-	(2,330)	-	-	(2,043)	-	(2,043)
$ -	$ 21	$ -	$ -	$ 36	$ -	$ 36
(88)	724	193	-	554	(88)	659
88	(222)	(192)	-	(119)	88	(223)
$ -	$ 502	$ 1	$ -	$ 435	$ -	$ 436
-	-	-	-	-	-	-
-	(6,242)	-	-	(6,013)	-	(6,013)
169	(17,049)	-	-	(20,892)	169	(20,723)
$ (446)	$ (5,022)	$ 1	$ (94)	$ (8,512)	$ (437)	$ (9,042)
-	44	-	-	97	-	97
$ (446)	$ (4,978)	$ 1	$ (94)	$ (8,415)	$ (437)	$ (8,945)

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Consolidating Schedules of Changes in Net Position

For Years Ended September 30, 2003 and 2002

($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balance	$ 27	$ 218	$ (159,561)
Budgetary Financing Sources:			
Appropriations Used	(3)	-	21,377
Nonexchange Revenues	-	-	20
Transfers - In/Out Without Reimbursement, Budgetary	(11)	20	(27)
Other Financing Sources:			
Transfers - In/Out Without Reimbursement, Nonbudgetary	-	(4)	996
Imputed Financing from Costs Absorbed by Others	10	1	(189)
Other	(15)	-	447
Total Financing Sources	$ (19)	$ 17	$ 22,624
Net Cost of Operations	(1)	658	3,875
Ending Balance - Cumulative Results of Operations	$ 7	$ 893	$ (133,062)
UNEXPENDED APPROPRIATIONS:			
Beginning Balance	$ -	$ 11	$ 8,195
Budgetary Financing Sources Related to Appropriations:			
Appropriations Received	-	-	22,248
Appropriations Transferred - In/Out	-	(1)	(25)
Other Adjustments	12	-	(166)
Appropriations Used	3	-	(21,377)
Total Financing Sources Related to Appropriations	$ 15	$ (1)	$ 680
Ending Balance - Unexpended Appropriations	$ 15	$ 10	$ 8,875

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		FY 2002				
Eliminations	Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ (159,316)	$ 12	$ 135	$ (188,807)	$ -	$ (188,660)
-	21,374	-	-	20,137	-	20,137
-	20	-	-	35	-	35
-	(18)	(9)	-	(26)	-	(35)
	-					
-	992	-	(19)	234	-	215
-	(178)	10	1	22	-	33
(446)	(14)	15	7	429	(437)	14
$ (446)	$ 22,176	$ 16	$ (11)	$ 20,831	$ (437)	$ 20,399
446	4,978	(1)	94	8,415	437	8,945
$ -	$ (132,162)	$ 27	$ 218	$ (159,561)	$ -	$ (159,316)
$ -	$ 8,206	$ 15	$ 11	$ 7,148	$ -	$ 7,174
-	22,248	-	-	21,182	-	21,182
-	(26)	-	-	39	-	39
-	(154)	(15)	-	(37)	-	(52)
-	(21,374)	-	-	(20,137)	-	(20,137)
$ -	$ 694	$ (15)	$ -	$ 1,047	$ -	$ 1,032
$ -	$ 8,900	$ -	$ 11	$ 8,195	$ -	$ 8,206

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Combining Schedules of Budgetary Resources

For Years Ended September 30, 2003 and 2002

($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
BUDGETARY RESOURCES			
Budget Authority			
Appropriations Received	$ 3	$ 193	$ 22,848
Borrowing and Contract Authority	-	673	-
Net Transfers	-	(128)	(118)
Unobligated Balance			
Beginning of Period	2	157	2,992
Net Transfers, Actual	-	-	74
Spending Authority from Offsetting Collections			
Earned			
Collected	192	4,066	2,489
Receivable from Federal Sources	-	38	37
Change in Unfilled Customer Orders			
Advances received	-	84	12
Without Advances from Federal Sources	-	9	551
Recoveries of Prior Year Obligations	-	-	218
Authority Temporarily Not Available	-	-	(87)
Authority Permanently Not Available	-	(796)	(156)
Total Budgetary Resources	$ 197	$ 4,296	$ 28,860
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred			
Direct	$ 193	$ 233	$ 22,306
Exempt from Apportionment	-	3,344	139
Reimbursable	-	543	2,987
Total Obligations Incurred (Note 24)	$ 193	$ 4,120	$ 25,432
Unobligated Balances Available			
Apportioned Available	4	176	1,610
Exempt from Apportionment	-	-	15
Unobligated Balances Not Available	-	-	1,803
Total Status of Budgetary Resources	$ 197	$ 4,296	$ 28,860
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS			
Obliated Balance - Beginning of Period	$ 34	$ 637	$ 10,527
Obligated Balance, Transferred	-	-	(20)
Obligated Balance, Net of Transfers - Beginning of Period	$ 34	$ 637	$ 10,507
Obligated Balance - End of Period			
Accounts Receivable	$ -	$ (342)	$ (270)
Unfilled Customer Orders from Federal Sources	-	(16)	(2,707)
Undelivered Orders	11	170	9,712
Accounts Payable	13	1,058	3,877
	$ 24	$ 870	$ 10,612
Outlays			
Disbursements	$ 203	$ 3,841	$ 24,520
Collections	(192)	(4,150)	(2,501)
Subtotal	$ 11	$ (309)	$ 22,019
Less: Offsetting Receipts	-	(612)	(1,767)
Net Outlays	$ 11	$ (921)	$ 20,252

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	FY 2002			
Combined	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Combined
$ 23,044	$ 3	$ 212	$ 21,820	$ 22,035
673	-	642	-	642
(246)	-	(122)	7	(115)
3,151	8	231	2,811	3,050
74	-	(7)	1	(6)
6,747	184	4,174	2,295	6,653
75	-	(100)	(64)	(164)
96	-	19	(7)	12
560	-	4	179	183
218	-	7	21	28
(87)	-	-	(40)	(40)
(952)	-	(308)	(140)	(448)
$ 33,353	$ 195	$ 4,752	$ 26,883	$ 31,830
$ 22,732	$ 194	$ 253	$ 21,553	$ 22,000
3,483	-	3,853	94	3,947
3,530	-	490	2,241	2,731
$ 29,745	$ 194	$ 4,596	$ 23,888	$ 28,678
1,790	1	156	1,344	1,501
15	-	-	9	9
1,803	-	-	1,642	1,642
$ 33,353	$ 195	$ 4,752	$ 26,883	$ 31,830
$ 11,198	29	$ 714	$ 9,723	$ 10,466
(20)	-	-	-	-
$ 11,178	$ 29	$ 714	$ 9,723	$ 10,466
$ (612)	$ -	$ (304)	$ (233)	$ (537)
(2,723)	-	(7)	(2,156)	(2,163)
9,893	10	108	8,917	9,035
4,948	24	840	3,999	4,863
$ 11,506	$ 34	$ 637	$ 10,527	$ 11,198
$ 28,564	$ 188	$ 4,762	$ 22,952	$ 27,902
(6,843)	(184)	(4,193)	(2,288)	(6,665)
$ 21,721	$ 4	$ 569	$ 20,664	$ 21,237
(2,379)	-	(317)	(2,890)	(3,207)
$ 19,342	$ 4	$ 252	$ 17,774	$ 18,030

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Consolidating Schedules of Financing

For Years Ended September 30, 2003 and 2002
($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
RESOURCES USED TO FINANCE ACTIVITIES:			
Budgetary Resources Obligated:			
Obligations Incurred	$ 193	$ 4,120	$ 25,432
Less: Spending Authority from Offsetting Collections and Recoveries	(192)	(4,197)	(3,307)
Obligations, Net of Offsetting Collections and Recoveries	$ 1	$ (77)	$ 22,125
Offsetting Receipts	(23)	(612)	(1,744)
Net Obligations	$ (22)	$ (689)	$ 20,381
Other Resources:			
Imputed Financing from Costs Absorbed by Others	10	1	(190)
Transfers-In/Out	(11)	16	969
NWF Offsetting Receipts, Deferred	-	-	1,177
Other	20	156	205
Net Other Resources Used to Finance Activities	$ 19	$ 173	$ 2,161
Total Resources Used to Finance Activities	$ (3)	$ (516)	$ 22,542
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:			
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	$ (2)	$ 29	$ (233)
Resources that Finance the Acquisition of Assets	-	(408)	(4,284)
Resources that Fund Expenses Recognized in Prior Periods	-	-	(6,191)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	-	-	3
Other Resources and Adjustments	11	(521)	(2)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 9	$ (900)	$ (10,707)
Total Resources Used to Finance the Net Cost of Operations	$ 6	$ (1,416)	$ 11,835
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:			
Components Requiring or Generating Resources in Future Periods:			
Decreases in Unfunded Liability Estimates	$ -	$ 15	$ (17,031)
Increase in Exchange Revenue Receivable from the Public	(10)	(10)	1
Total Components Requiring or Generating Resources in Future Periods	$ (10)	$ 5	$ (17,030)
Components Not Requiring or Generating Resources:			
Depreciation and Amortization	$ 4	$ 428	$ 1,128
Revaluation of Assets and Liabilities	-	-	(31)
Other	1	325	223
Total Components Not Requiring or Generating Resources	$ 5	$ 753	$ 1,320
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ (5)	$ 758	$ (15,710)
NET COST OF OPERATIONS	$ 1	$ (658)	$ (3,875)

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		FY 2002				
Eliminations	Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ 29,745	$ 194	$ 4,596	$ 23,888	$ -	$ 28,678
-	(7,696)	(184)	(4,104)	(2,424)	-	(6,712)
$ -	$ 22,049	$ 10	$ 492	$ 21,464	$ -	$ 21,966
-	(2,379)	-	(317)	(2,890)	-	(3,207)
$ -	$ 19,670	$ 10	$ 175	$ 18,574	$ -	$ 18,759
-	(179)	9	1	23	-	33
-	974	(9)	(19)	208	-	180
-	1,177	-	-	2,346	-	2,346
(615)	(234)	1	35	194	(606)	(376)
$ (615)	$ 1,738	$ 1	$ 17	$ 2,771	$ (606)	$ 2,183
$ (615)	$ 21,408	$ 11	$ 192	$ 21,345	$ (606)	$ 20,942
$ -	$ (206)	$ (3)	$ 32	$ (887)	$ -	$ (858)
-	(4,692)	(3)	(354)	(3,164)	-	(3,521)
-	(6,191)	-	-	(6,012)	-	(6,012)
-	3	-	-	6	-	6
-	(512)	-	(602)	-	-	(602)
$ -	$ (11,598)	$ (6)	$ (924)	$ (10,057)	$ -	$ (10,987)
$ (615)	$ 9,810	$ 5	$ (732)	$ 11,288	$ (606)	$ 9,955
$ 169	$ (16,847)	$ -	$ 2	$ (20,891)	$ 169	$ (20,720)
-	(19)	(3)	(9)	6	-	(6)
$ 169	$ (16,866)	$ (3)	$ (7)	$ (20,885)	$ 169	$ (20,726)
$ -	1,560	3	433	1,058	-	1,494
-	(31)	-	-	110	-	110
-	549	(4)	212	14	-	222
$ -	$ 2,078	$ (1)	$ 645	$ 1,182	$ -	$ 1,826
$ 169	$ (14,788)	$ (4)	$ 638	$ (19,703)	$ 169	$ (18,900)
$ (446)	$ (4,978)	$ 1	$ (94)	$ (8,415)	$ (437)	$ (8,945)

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Consolidating Schedules of Custodial Activities

For Years Ended September 30, 2003 and 2002
($ in millions)

	FY 2003		
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs
SOURCES OF COLLECTIONS			
Cash Collections			
Interest	$ -	$ -	$ 4
Penalties and Fines	20	-	-
Power Marketing Administration Custodial Revenue	-	512	-
Other Custodial Revenue	-	-	-
Total Cash Collections	$ 20	$ 512	$ 4
Accrual Adjustment	16	(7)	3
Total Revenue	$ 36	$ 505	$ 7
DISPOSITION OF REVENUE			
Transferred to Others			
Department of the Treasury	(5)	(469)	(8)
Army Corps of Engineers	(7)	-	-
Bureau of Reclamation	(6)	(44)	-
Others	(2)	1	(2)
Increase (Decrease) in Amounts to be Transferred	(16)	7	3
Net Custodial Activity	$ -	$ -	$ -

See independent auditors' report

		FY 2002				
Eliminations	Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ 4	$ -	$ -	$ 6	$ -	$ 6
-	20	-	-	3	-	3
-	512	-	496	-	-	496
-	-	16	-	-	-	16
$ -	$ 536	$ 16	$ 496	$ 9	$ -	$ 521
-	12	-	23	3	-	26
$ -	$ 548	$ 16	$ 519	$ 12	$ -	$ 547
-	(482)	-	(413)	(8)	-	(421)
-	(7)	(6)	-	-	-	(6)
-	(50)	(6)	(78)	(1)	-	(85)
-	(3)	(3)	-	(3)	-	(6)
-	(6)	(1)	(28)	-	-	(29)
$ -	$ -	$ -	$ -	$ -	$ -	$ -

See independent auditors' report

Required Supplementary Stewardship Information (unaudited)

Statement of Federal Financial Accounting Standard Number 8 - "Supplementary Stewardship Reporting Chapter 7 - Research and Development, " requires the Department to report expenses for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits in its supplementary stewardship information accompanying the financial statements. Investments in research and development refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Year ending September 30, 2003 (in millions)

	FY 2003			FY 2002		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
BASIC						
Nuclear Nonproliferation	$10.1	$1.5	$11.6	$ 8.4	$1.3	$9.7
Energy Security **	37.3	4.7	42.0	39.3	6.9	46.2
World-Class Scientific Research	2,448.0	594.0	3,042.0	2,598.0	506.0	3,104.0
Environmental Management	-	-	-	-	-	-
TOTAL BASIC	**$2,495.4**	**$600.2**	**$3,095.6**	**$2,645.7**	**$514.2**	**$3,159.9**

* FY 2001, FY 2000 & FY 1999 information provided via crosswalk from previous report format utilizing responsibility segments.

**Full R&D investments for the Power Marketing Administration's are included under direct costs of the Energy Security Goal.

FY 2001			FY 2000			FY 1999		
Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
$15.5	$ 1.7	$17.2	$13.5	$1.4	$14.9	$2.3	$0.2	$2.5
36.2	10.0	46.2	34.5	5.8	40.3	23.7	2.8	26.5
2,204.8	392.0	2,596.8	2,096.0	328.6	2,424.6	2,045.7	324.2	2,369.9
33.8	6.1	39.9	39.5	6.6	46.1	60.1	12.7	72.8
$2290.3	**$409.8**	**$2,700.1**	**$2183.5**	**$342.4**	**$2,525.9**	**$2131.8**	**$339.9**	**$2,471.7**

Supplementary Stewardship Reporting
on Research and Development Costs
for Fiscal Year ending September 30, 2003
(in millions)

	FY 2003 Direct Cost	FY 2003 Depreciation & Other Managerial Cost	FY 2003 Total Cost	FY 2002 Direct Cost	FY 2002 Depreciation & Other Managerial Cost	FY 2002 Total Cost
APPLIED						
Nuclear Weapons Stewardship	$1,660.5	$454.5	$2,115.0	$1,700	$379.6	$2,079.6
Nuclear Nonproliferation	95.2	13.8	109.0	72.2	11.0	83.2
Energy Security **	380.1	44.8	424.9	344	27.1	371.1
World-Class Scientific Research	2.9	0.5	3.4	37.9	4.3	42.2
Environmental Management	23.4	4.4	27.8	89.9	20.8	110.7
Nuclear Waste	75.8	1.0	76.8	62.5	2.6	65.1
TOTAL APPLIED	**$2237.9**	**$519.0**	**$2,756.9**	**$2306.5**	**$445.4**	**$2,751.9**
DEVELOPMENT						
Nuclear Weapons Stewardship	$734.3	$221.5	$955.8	$726.6	$175.7	$902.3
Nuclear Nonproliferation	66.1	9.9	76.0	83.8	13.3	97.1
Naval Reactors	621.8	16.3	638.1	653.0	16.6	669.6
Energy Security **	579.2	68.2	647.4	579.8	47.7	627.5
World-Class Scientific Research	-	-	-	-	-	-
Environmental Management	54.7	10.3	65.0	134.8	31.2	166.0
Nuclear Waste	-	-	-	-	-	-
Other						
Intelligence	5.6	0.3	5.9	4.3	0.5	4.8
Nuclear Safeguards and Security	26.4	15.0	41.4	-	-	-
TOTAL DEVELOPMENT	**$2,088.1**	**$341.5**	**$2,429.6**	**$2,182.3**	**$285.0**	**$2,467.3**
TOTAL RESEARCH AND DEVELOPMENT	**$6,821.4**	**$1,460.7**	**$8,282.1**	**$7,134.5**	**$1,244.6**	**$8,379.1**

* FY 2001, FY 2000 & FY 1999 information provided via crosswalk from previous report format utilizing responsibility segments.
**Full R&D investments for the Power Marketing Administration's are included under direct costs of the Energy Security Goal.

	FY 2001			FY 2000			FY1999		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
	$1,416.2	$222.5	$1,638.7	$1,213.0	$128.1	$1,341.1	$1,141.1	$135.6	$1,276.7
	75.9	7.4	83.3	66.1	7.4	73.5	62.9	6.8	69.7
	402.3	62.4	464.7	338.5	57.0	395.5	342.6	40.2	382.8
	81.0	1.1	82.1	75.7	4.2	79.9	52.9	8.0	60.9
	77.7	15.5	93.2	72.2	12.0	84.2	61.3	25.6	86.9
	60.4	3.1	63.5	58.7	4.7	63.4	59.0	1.5	60.5
	$2,113.5	**$312.0**	**$2,425.5**	**$1,824.2**	**$213.4**	**$2,037.6**	**$1,719.8**	**$217.7**	**$1,937.5**
	$643.3	$201.7	$845.0	$547.5	$50.8	$598.3	$507.3	$64.4	$571.7
	79.1	7.4	86.5	88.9	10.1	99.0	95.2	11.3	106.5
	604.5	40.9	645.4	633.5	59.9	693.4	588.6	(8.2)	580.4
	627	88.6	715.6	623.9	89.4	713.3	625.5	79.5	705.0
	-	-	-	-	-	-	-	-	--
	116.6	23.2	139.8	108.3	17.9	126.2	173.9	65.9	239.8
	-	-	-	7.6	2.1	9.7	-	-	--
	8.8	0.4	9.2	6.5	0.3	6.8	4.4	0.3	4.7
	21.5	11.7	33.2	-	-	-	-	-	--
	$2,100.8	**$373.9**	**$2,474.7**	**$2,016.2**	**$230.5**	**$2,246.7**	**$1,994.9**	**$213.2**	**$2,208.1**
	$6504.6	**$1,095.7**	**$7,600.3**	**$6,023.9**	**$786.3**	**$6,810.2**	**$5,846.5**	**$770.8**	**$6,617.3**

Required Supplementary Stewardship Information for Research and Development

Nuclear Weapons Stewardship: *Applied & Development*
Activities provided leading edge scientific and engineering tools required to support the stockpile now and in the future.

Nuclear Nonproliferation: *Basic, Applied & Development*
Activities conducted to provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks.

Naval Reactors: *Development*
Activities conducted to develop new technologies, methods and materials to support reactor plant design for future generations of reactors for submarines, aircraft carriers and other combat ships.

Energy Security: *Basic, Applied & Development*
Activities that invest in high-risk, high-value energy research and development that the private sector alone would not or could not develop in a market driven economy. Areas included are coal, gas, petroleum, nuclear energy and other power technologies.

World-Class Scientific Research Capacity: *Basic, Applied & Development*
Activities that advance the frontiers of knowledge in physical sciences and the areas of biological, medical, environmental and computational sciences.

Environmental Management: *Basic, Applied & Development*
Activities related to environmental cleanup and related technologies, technology integration and international technology exchange activities.

Nuclear Waste: *Applied & Development*
Activities conducted on the long-term storage of high level nuclear waste at a permanent underground repository.

Intelligence: *Development*
Activities associated with assessing science and technologies and accomplishing the Intelligence program.

Nuclear Safeguards and Security: *Development*
Activities related to systems development that may be used or shared with other federal agencies and private industry.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

This section of the report provides required supplementary information for the Department on deferred maintenance, budgetary resources by major budget account and intra-governmental balances.

DEFERRED MAINTENANCE

Deferred maintenance information is a requirement under the Office of Management and Budget's Statement of Federal Financial Accounting Standards Number 6, Accounting for Property, Plant and Equipment and Statement of Federal Financial Accounting Standards Number 14, Amendments to Deferred Maintenance which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in Standard No. 6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Estimates were developed for:

Buildings and Other Structures and Facilities	$3,375 million
Capital Equipment	$14 million
TOTAL	$3,389 million

BUILDINGS, AND OTHER STRUCTURES AND FACILITIES

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

In accordance with standards identified in the National Association of College and University Business Officers, in "Managing the Facilities Portfolio", the acceptable operation conditions standard is equal to a Facility Condition Index of < five percent.

As of September 30, 2003, an amount of $3,375 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 68 percent.

CAPITAL EQUIPMENT

Pursuant to the cost/benefit considerations provided in Statement of Federal Financial Accounting Standards Number 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than $100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department's capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of $14 million of deferred maintenance was estimated to be needed as of September 30, 2003, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account
For the Year Ended September 30, 2003
($ in millions)

	Fossil Energy R&D 89-0213	Energy Conservation 89-0215	Science 89X0222	Energy Supply 89-0224	Weapons Activities 89-0240
BUDGETARY RESOURCES					
Budgetary Authority	$ 615	$ 886	$ 3,329	$ 694	$ 6,021
Unobligated Balance, Net - Beginning of Period	261	28	9	83	640
Spending Authority from Offsetting Collections		1		741	2,077
Recoveries of Prior Year Obligations	2	3	2	7	
Authority Permanently Not Available	(4)	(6)	(21)	(10)	(39)
Total Budgetary Resources	$ 874	$ 912	$ 3,319	$ 1,515	$ 8,699
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 486	$ 885	$ 3,292	$ 1,395	$ 8,162
Unobligated Balances Available	388	26	26	112	243
Unobligated Balances Not Available		1	1	8	294
Total Status of Budgetary Resources	$ 874	$ 912	$ 3,319	$ 1,515	$ 8,699
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 470	$ 680	$ 1,862	$ 448	$ 1,710
Obligated Balance, Net - End of Period	468	664	1,859	497	1,890
Outlays	485	896	3,293	598	5,904
Less: Offsetting Receipts					
Net Outlays	$ 485	$ 896	$ 3,293	$ 598	$ 5,904

	Defense Environmental Restoration 89-0242	Other Defense Activities 89-0243	Defense Facilities Closure Projects 89-0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X314
BUDGETARY RESOURCES					
Budgetary Authority	$ 5,471	$ 520	$ 1,138	$ 1,237	$ 707
Unobligated Balance, Net - Beginning of Period	27	28	2	282	1
Recoveries of Prior Year Obligations	4	4			
Authority Permanently Not Available	(35)	(3)	(7)	(7)	(5)
Total Budgetary Resources	$ 5,467	$ 549	$ 1,133	$ 1,512	$ 703
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 5,360	$ 526	$ 1,131	$ 1,174	$ 701
Unobligated Balances Available	104	21	2	338	2
Unobligated Balances Not Available	3	2			
Total Status of Budgetary Resources	$ 5,467	$ 549	$ 1,133	$ 1,512	$ 703
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 1,935	$ 294	$ 364	$ 760	$ 200
Obligated Balance, Net - End of Period	2,013	260	241	964	211
Outlays	5,279	556	1,254	970	690
Less: Offsetting Receipts					
Net Outlays	$ 5,279	$ 556	$ 1,254	$ 970	$ 690

	Bonneville Power Administration 89X4045	Western Area Power Administration 89X5068	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Budgetary Authority	$ 535	$ 169	$ -	$ 2,149	$ 23,471
Unobligated Balance, Net Beginning of Period		79	1,258	527	3,225
Spending Authority from Offsetting Collections	3,604	385	43	627	7,478
Recoveries of Prior Year Obligations				196	218
Authority Temporarily Not Available				(87)	(87)
Authority Permanently Not Available	(795)	(1)		(19)	(952)
Total Budgetary Resources	$ 3,344	$ 632	$ 1,301	$ 3,393	$ 33,353
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 3,344	$ 521	$ -	$ 2,768	$ 29,745
Unobligated Balances Available		111		432	1,805
Unobligated Balances Not Available			1,301	193	1,803
Total Status of Budgetary Resources	$ 3,344	$ 632	$ 1,301	$ 3,393	$ 33,353
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 414	$ 173	$ 1	$ 1,867	$ 11,178
Obligated Balance, Net - End of Period	617	202	1	1,619	11,506
Outlays	(462)	107	(43)	2,194	21,721
Less: Offsetting Receipts	(97)			(2,282)	(2,379)
Net Outlays	$ (559)	$ 107	$ (43)	$ (88)	$ 19,342

Schedule of Intragovernmental Amounts
For Fiscal Year 2003
($ in millions)

Intragovernmental Assets:

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Regulatory Assets	Other
U.S. Treasury	$ 14,824	$ 18,849	$ 120	$ 4,690	$ -
Defense Agencies	-	-	194	-	3
Department of the Interior		-	21	-	-
Department of Homeland Security		-	11	-	-
Tennessee Valley Authority	-	-	53	-	-
General Services Administration	-	-	1	-	2
Other	-	-	90	-	2
Total intragovernmental assets	$ 14,824	$ 18,849	$ 490	$ 4,690	$ 7

Intragovernmental Liabilities:

Agency	Accounts Payable	Debt	Appropriated Capital Owed	Deferred Revenues	Other
U.S. Treasury	$ 29	$ 7,538	$ 2,906	$ 99	$ -
Defense Agencies	19	-	-	23	106
Department of Agriculture	3	-	-	-	-
Department of the Interior	17	-	-	1	22
General Services Administration	14	-	-	3	-
Office of Personnel Management	12	-	-	-	12
Department of State	1	-	-	7	-
Other	28	-	-	25	131
Total intragovernmental liabilities	$ 123	$ 7,538	$ 2,906	$ 158	$ 271

Intragovernmental Earned Revenues, Costs, Transfers, and Non-Exchange Revenues:

Agency	Earned Revenues	Costs	Transfers (Out)- Custodial	Transfers In/(Out) - Other	Non-Exchange Revenues
Defense Agencies	$ 1,274	$ 62	$ (7)	$ 62	$ -
U.S. Treasury	896	157	(482)	35	20
Department of Health & Human Services	132	32	-	-	-
National Aeronautics and Space Administration	69	1	-	-	-
Nuclear Regulatory Commission	74	4	-	(25)	-
Department of Homeland Security	41	-		(127)	
Department of the Interior	27	65	(50)	1,050	-
Office of Personnel Management	3	318			
General Services Administration	8	119			
Tennessee Valley Authority	40	38	-	-	-
Other	392	208	-	(47)	-
Total	$ 2,956	$ 1,004	$ (539)	$ 948	$ 20

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Auditors' Reports

Department of Energy
Washington, DC 20585
December 5, 2003

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Consolidated Financial Statements

This is to inform you that the Department's consolidated financial statements for Fiscal Year (FY) 2003 have received an unqualified audit opinion. The audit of the Department's statements was conducted pursuant to the Government Management and Reform Act of 1994. The objective of the Act is to improve financial practices in the Federal Government by issuing audited financial statements for each agency. The Department is responsible for the preparation of the statements and the Office of Inspector General (OIG) is responsible for the audit.

As in previous years, the OIG contracted with the accounting firm of KPMG LLP to conduct the audit. KPMG is responsible for expressing an opinion on the Department's consolidated financial statements and reporting on applicable internal controls, and compliance with laws and regulations. In connection with the contract, the OIG monitored audit progress and reviewed the audit report and related documentation. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG, however, did not express an independent opinion on the Department's financial statements.

Based on its audit, KPMG concluded that the consolidated financial statements present fairly, in all material respects, the Department's financial position as of September 30, 2003, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in KPMG's opinion, the firm did not audit the FY 2003 financial statements of the Bonneville Power Administration or Western Area Power Administration. Those statements were audited by other public accounting firms whose reports were considered by KPMG in forming their overall opinion on the Department's consolidated financial statements.

As part of KPMG's determination, the auditors considered internal controls over financial reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the consolidated financial statements. The examination revealed two reportable conditions in the Department's system of internal controls:

- The Department has certain network vulnerabilities and general access control weaknesses that could impact its unclassified information systems. In certain instances, the integrity of financial system data is at risk because of ineffective access and computer security controls. The Department has made numerous improvements; however, additional effort is required to ensure that Federal information standards are met and that information systems are adequately protected against unauthorized access.

- While the Department made significant progress in improving performance measurement reporting, more remains to be done to satisfy the Office of Management and Budget's requirements. Specifically, the Department needs to strengthen internal controls to ensure the accuracy of reported performance data and the maintenance of related supporting documentation.

Management officials generally concurred with the audit findings and initiated or agreed to initiate specific corrective actions. It should be noted that these conditions represent findings that were previously reported in last year's audit report.

I would like to thank all elements of the Department for their courtesy and cooperation during the conduct of the audit.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Director, Office of Management, Budget and Evaluation/Chief Financial Officer

Audit Report: DOE/OAS-FS-04-02

2001 M Street NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General, U.S. Department of Energy:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Energy (Department) as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial and performance reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

As described in our opinion, we did not audit the fiscal year 2003 financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the year ended September 30, 2003 is included in the accompanying consolidated financial statements. Those statements were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, based upon our audits and the reports of other auditors, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2003 and 2002 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our opinion emphasizes that the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control, and that the Department's environmental liabilities may increase significantly if it is not allowed to reclassify a portion of its radioactive waste.

Our consideration of internal control over financial and performance reporting identified two reportable conditions with respect to unclassified network and information systems security and performance measurement reporting. However, these reportable conditions are not believed to be material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial and performance reporting, our tests of the Department's compliance with certain provisions of applicable laws and regulations, management's responsibilities, and our responsibilities.

Opinion on Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Energy as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources, for the years then ended.

We did not audit the fiscal year 2003 financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the year ended September 30, 2003 is included in the accompanying consolidated financial statements, and which, combined and compared to the Department's consolidated financial statements, represent 17 percent of total assets; 58 percent of total earned revenues; and 15 percent of total program costs. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the fiscal year 2003 amounts included for Bonneville Power Administration and Western Area Power Administration, is based solely upon the reports of the other auditors.

In our opinion, based upon our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Energy as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $183 billion and $210 billion as of September 30, 2003 and 2002, respectively, are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control. The Department reduced its environmental remediation liabilities during the years ended September 30, 2003 and 2002, by implementing an accelerated cleanup approach. Also, as discussed in Note 17 to the consolidated financial statements, the Department's environmental liabilities may increase by more than $100 billion if it is not allowed to reclassify a portion of its radioactive waste in accordance with its accelerated cleanup approach.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Department's *Fiscal Year 2003 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities of the Department's components individually. The information in the Consolidating Schedules section has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The information in the Performance Results section of the Department's *Fiscal Year 2003 Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures, except for the testing of controls over selected performance measures, as described in the Responsibilities section of this report, and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted the following matter, described in more detail in Exhibit I, involving internal control over financial reporting and its operation that we consider to be a reportable condition. However, this reportable condition is not believed to be a material weakness.

> ***Unclassified Network and Information Systems Security*** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur, and may threaten the integrity of essential financial management system data. The Department should continue to improve its network and information systems security.

We also noted other matters involving internal control over financial management systems and its operation that we have reported to Departmental management in a separate letter dated September 26, 2003. In addition, we will report other matters involving internal control over financial reporting and its operation to Departmental management in a separate letter.

Internal Control over Performance Reporting

With respect to the design of internal controls relating to existence and completeness assertions over performance measures determined by management to be key and reported in Management's Discussion and Analysis, we noted certain deficiencies, described below and in more detail in Exhibit I, in internal control over reported performance measures that, in our judgment, could adversely affect the Department's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria. However, this reportable condition is not believed to be a material weakness.

> ***Performance Measurement Reporting*** – The Department's performance reporting for fiscal year 2003 contains certain deficiencies, some of which were noted in previous audits, that limit the reader's ability to properly assess the Department's performance. The Department should strengthen internal controls to ensure the accuracy of reported performance data and the availability of related supporting documentation, and to continue improving the development of performance measures.

A summary of the status of the prior year reportable conditions is included as Exhibit II.

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

Responsibilities

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA) requires each Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual consolidated financial statements.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;

- Establishing and maintaining internal control over financial reporting, and preparing Management's Discussion and Analysis (including the performance measures), Required Supplementary Stewardship Information, and Required Supplementary Information; and

- Complying with laws and regulations, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2003 and 2002 consolidated financial statements of the Department based upon our audits and the reports of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2003 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting and, accordingly, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2003 financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, OMB, GAO, and the U.S. Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

KPMG LLP

November 26, 2003

Unclassified Network and Information Systems Security

We noted network vulnerabilities and weaknesses in access and other security controls in unclassified information systems.

Finding 1: Network Security

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites we reviewed in prior years. However, we, and the Department's Office of Independent Oversight and Performance Assurance, continued to identify network security weaknesses at sites reviewed in fiscal year 2003, although the frequency and severity of those weaknesses were less than in prior years. Improvements are still needed in the areas of password management, configuration management, and restriction of services.

The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate their potential effect on the integrity of the Department's financial systems.

Recommendation:

We recommend that the Department's Chief Information Officer take actions to improve network security throughout the Department. Detailed recommendations to address the issues discussed above have been separately reported to the Office of the Chief Information Officer.

Finding 2: Information Systems Access and Other Security Controls

The Department has mandated compliance with several Federal information security directives and public laws in DOE Order 205.1, *Cyber Security Management Program*, dated March 21, 2003. The Order also establishes policies for the protection of unclassified information and information systems. Within this security framework, the Department operates the financial management systems that provide the information needed to prepare its consolidated financial statements.

Our fiscal year 2003 audit disclosed weaknesses in access and other security controls at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review of physical access controls, monitoring of networks for questionable activity, password security, restriction and review of user privileges, segregation of incompatible privileges, and contingency and disaster recovery planning. In addition, we identified weaknesses in security planning, including insufficient identification of critical and sensitive systems and applications, and outdated or nonexistent risk assessments and security certifications for support systems and major applications. Further, the Department's Office of Inspector General also reported deficiencies in the Department's network and information system risk management, contingency planning, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2003.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2003, the Department's Chief Information Officer initiated an aggressive approach to identify the root causes of the control weaknesses and to develop new policies and procedures to strengthen controls and reduce network vulnerabilities. Once implemented, these new policies and procedures should strengthen the Department's overall cyber security program. While significant progress has been achieved, continued focus is needed to resolve the access and security control weaknesses noted above.

The identified weaknesses in access and computer security controls may threaten the integrity of essential financial management system data. Because of our concerns, we performed supplementary audit procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems. However, we did not address the potential effect of the security weaknesses on the integrity of the Department's non-financial systems.

Recommendation:

As recommended in the prior year, the Department's Chief Information Officer should monitor and enforce the implementation of its Cyber Security Program throughout the Department to ensure that the Federal information security standards are met and that its networks and information systems are adequately protected against unauthorized access. Detailed recommendations to address the issues discussed above have been separately reported to the Office of the Chief Information Officer.

Performance Measurement Reporting

Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires Federal agencies to include, in documents presenting their financial statements, discussion and analysis of the financial statements and related information, including performance measures.

The Department presents performance measurement data and other information required by SFFAS No. 15 for each of its principal programs in the Management's Discussion and Analysis section of its *Fiscal Year 2003 Performance and Accountability Report*. This performance measurement data is based primarily upon information from the Department's *Strategic Plan* and the revised final goals for fiscal year 2003 published in the *Revised Final Annual Performance Plan for Fiscal Year 2003*, prepared under the requirements of the *Government Performance and Results Act of 1993*.

Prior audits have reported that many of the Department's performance measures (1) were not stated in objective or quantifiable terms; (2) were not clearly written to be understandable; and (3) did not provide related cost information. During fiscal year 2003, the Department made significant progress in resolving performance reporting issues, but more remains to be done.

Finding 3: Performance Measurement Reporting

The OMB indicates that performance measures should be output or outcome oriented, meaningful and relevant, objective and quantifiable, and consistent with the measures developed in the strategic planning process. Performance measures should also be described in terms understandable to a non-technical audience. Finally, underlying records should support the reported information, and controls should be in place to ensure the accuracy of the reported results.

In fiscal year 2003, the Department implemented a new performance management system to track and report quarterly on its performance measures. The Department also made progress in improving the quality and measurability of its performance measures and in linking costs to performance at the general goal level. In fiscal year 2003, we selected a statistical sample of 32 performance measures, called annual performance targets, and found that:

- Two targets were initially reported incorrectly as being met, even though the supporting data clearly stated that the efforts were terminated or reduced.
- One target was reported incorrectly as being met, based on insufficient data.
- Four targets were not written in specific or easily understandable terms.
- One target was not easily quantifiable.

These deficiencies limit the reader's ability to properly assess the Department's performance.

Management has indicated that its planned fiscal year 2004 changes to the performance measurement process will be responsive to our recommendations.

Recommendation:

We recommend that the Department's Chief Financial Officer strengthen internal controls to ensure the accuracy of reported performance data and the availability of related supporting documentation, and continue to improve the development of performance measures consistent with the *Government Performance and Results Act*, applicable OMB guidance, and Federal accounting standards. Making these improvements will require cooperation from all elements within the Department.

Reportable Conditions from Fiscal Year 2002 (with parenthetical disclosure of year first reported)	**Status at September 30, 2003**
1. Unclassified Information Systems Security (1999)	Still reported in Exhibit I as a reportable condition.
2. Performance Measurement Reporting (1997)	Still reported in Exhibit I as a reportable condition.

Department of Energy
Washington, DC 20585

December 5, 2003

KPMG LLP
2001 M Street, NW
Washington, DC 20036

I am providing this letter in connection with your audit of the United States Department of Energy's (the Department) consolidated balance sheet as of September 30, 2003, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources, for the year then ended. We have reviewed your Independent Auditors' Report and provide the following responses to your recommendations.

Finding 1: <u>Network Security</u>

Auditors' Recommendation:

The Department's Chief Information Officer take actions to improve network security throughout the Department.

Management Response:

The Chief Information Officer (CIO) concurs with this recommendation. A number of significant accomplishments were made in FY 2003. DOE Order 205.1, which establishes the Department's Cyber Security Management Program, was issued by order of the Secretary on March 21, 2003. Several more specific policies were developed to address particular security control areas. For example, we recently completed policies for remote access security, wireless security, certification and accreditation, and incident prevention and response. These policies are in the directives process and will be finalized in the second quarter of FY 2004.

In cooperation with the program offices, the CIO launched a formal performance measurement program with program and operational-level metrics. Together with the security corrective plan of action and milestones (POA&M), the metrics reveal the effectiveness of policies and implementation and identify areas for corrective action. Both the performance metrics and the POA&Ms are required on a quarterly basis. Additionally, a cyber security scorecard has been developed for senior management review and will be prepared on a quarterly basis in FY 2004.

Finding 2: <u>Information Systems Access and Other Security Controls</u>

Auditors' Recommendation:

The Department's Chief Information Officer should monitor and enforce the implementation of its Cyber Security Program throughout the Department, to ensure that the Federal information security standards are met and that its networks and information systems are adequately protected against unauthorized access.

Management Response:

The CIO concurs with this recommendation. The CIO has taken aggressive measures in the development and implementation of comprehensive cyber security policies through the development of several Notices and Manuals. The following Notices and Manuals have been prepared and are in the process of being finalized and issued:

- *Certification and Accreditation*, DOE N 205.A
- *Risk Management*, DOE N 205.B
- *Wireless Security*, DOE N 205.C
- *Remote Access Security*, DOE N 205.D
- *Sanitization of Information Media and Memory Devices*, DOE N 205.E
- *Cyber Security Program Manual*, DOE M 205.1-A
- *Risk Management Manual*, DOE M 205.1-B
- *Incident Prevention, Warning, and Response*, DOE M 205.1-C

We are also continuously monitoring program performance through the use of performance metrics, corrective plans of action and milestones, and independent verification and validation. For instance, an Independent Verification and Validation (IV&V) effort has been launched to monitor and evaluate program effectiveness throughout the Department. An IV&V of the Lawrence Berkley Lab was recently completed and recommendations for program improvements were provided. We plan to complete an IV&V for each quarter in FY 2004.

Finding 3: <u>Performance Measurement Reporting</u>

Auditors' Recommendation:

The Department's Chief Financial Officer strengthen internal controls to ensure the accuracy of reported performance data and the availability of related supporting documentation, and continue to improve the development, presentation, and systems for reporting of performance measures consistent with the *Government Performance and Results Act (GPRA)*, applicable Office of Management and Budget (OMB) guidance, and Federal accounting standards.

Management Response:

The Chief Financial Officer (CFO) agrees in principle with the auditors' recommendations that we strengthen internal controls and continue to make improvements in the development and reporting of performance measures. However, we believe that the Department's performance is accurately presented in the final Performance and Accountability Report and that readers can properly assess the Department's performance.

The auditors reviewed the Department's draft third quarter performance data which was simultaneously being subjected to internal review. Recognition should be given for the Department's internal control processes that occurred in the fourth quarter and at year end. These processes resulted in improvement in the final presentation of the Department's performance.

The Department had a number of major accomplishments in FY 2003:

- The performance measurement training was redesigned resulting in the establishment of two new courses. One course is for executives, while the second is for practitioners. This formal training is used to facilitate the development and reporting of clear and quantifiable performance goals and measures in conjunction with the budget process. During FY 2003, 260 managers and staff received performance measurement training. The training will be offered each fiscal year.

- New performance tracking software was implemented to improve reporting and analysis capabilities and facilitate the collection of more useful information for management decision-making. We began producing a comprehensive Quarterly Performance Report that includes: Annual Performance Plan measures, Project Management status using Earned Value Management System, Small Business Award Status, and a President's Management Agenda Internal Scorecard.

- The Department completed Performance Assessment and Rating Tools (PARTs) for programs that comprised approximately 58% of the Department's funding. We developed a GPRA Unit List that further refined our program list that forms the basis for programs and PARTs for the budget submission.

- Planning Guidance was issued in April 2003, establishing the framework for the preparation of the FY 2005 through FY 2009 budget. The guidance covers a five-year span and covers outyear funding controls, staffing controls, and specific outcomes/products.

- We designed a performance budget that integrates our Annual Performance Plan into our budget documentation. This dramatic consolidation directly ties cost to performance and provides the linkage to strategic and general goals. The FY 2005 submissions to OMB and Congress are integrated performance budgets. We reduced the number of performance measures in our performance budget as compared to our FY 2000 Annual Performance Plan.

Critical to continuous improvement in the area of performance measurement reporting in the outyears will be a multi-year, multi-faceted, comprehensive upgrade of the Department's business management systems. Known as I-MANAGE (for Integrated Management Navigation System), this initiative will consolidate and streamline Department-wide efforts to integrate financial, budgetary, procurement, personnel, program, and performance information. When the system is fully functional, each manager within the Department will use the system's central data warehouse as a "knowledge bank" of information about portfolios, programs, or projects including budget execution, accumulated costs, performance achieved, and critical milestones met.

Finally, in addition to the actions described above, the Deputy Secretary has taken a proactive leadership role in communicating to the Department program offices an urgent sense of purpose for improving the quality of performance measures to support the President's Management Agenda Initiative on Budget and Performance Integration.

Sincerely,

James T. Campbell

James T. Campbell
Acting Chief Financial Officer

MANAGEMENT CHALLENGES

ACTIONS TO ADDRESS MANAGEMENT CHALLENGES IDENTIFIED BY OTHERS

The Reports Consolidation Act of 2000 requires that, annually, the Inspector General prepare a statement summarizing what he considers to be the most serious management and performance challenges facing the Department. That statement is to be included in the Department's annual Performance and Accountability Report. The Inspector General statement included in the Department's Fiscal Year 2002 Performance and Accountability Report identified seven challenges that needed to be addressed in Fiscal Year 2003 and beyond.

The General Accounting Office also identified six challenge areas it believes the Department faces in carrying out its multiple, complex and highly diverse missions. These challenge areas are described in their January 2003 report.

The chart below summarizes the Inspector General and General Accounting Office challenges. The Department has taken these challenges very seriously and has worked toward their resolution in Fiscal Year 2003.

In some instances the Department has noted similar areas for improvement and identified them as significant issues. These Departmental significant issues are discussed in the Management Controls, Systems and Compliance with Laws and Regulations Section of this Report.

DEPARTMENTAL FISCAL YEAR 2003 ACTIONS:

In Fiscal Year 2003, the Deputy Secretary identified the Inspector General and General Accounting Office issues as management challenges and took an aggressive approach to confront and address them. As a result of the Deputy Secretary's direction:

- Secretarial officials developed action plans addressing not only the specific issues highlighted, but also the underlying causes.
- Secretarial officials personally met with the Inspector General and the General Accounting Office as the action plans were developed.
- Success in achieving action plan milestones was tracked monthly by the Deputy Secretary's office.
- The management challenge in the area of performance management is no longer reported by the Inspector General.

FISCAL YEAR 2003 IG/GAO IDENTIFIED MANAGEMENT CHALLENGES

IG CHALLENGE AREA	GAO CHALLENGE AREA
Contract Administration	Resolve problems in contract management that place the Department at high risk for fraud, waste and abuse
Performance Management	
Environmental Cleanup	Improve management for cleanup of the Department’s radioactive and hazardous wastes
Information Technology Management	
National Security	Address security threats and problems
Stockpile Stewardship	Improve management of the Nation's nuclear weapons stockpile
Worker/Community Safety	
	Enhance the Department’s leadership in meeting the Nation's energy needs
	Revitalize the Department’s infrastructure

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INSPECTOR GENERAL'S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES

For the past several years, the Office of Inspector General has identified what it considers to be the most significant management and performance challenges facing the Department of Energy. This effort, now codified as part of the Reports Consolidation Act of 2000, is completed on an annual basis, reflecting new work performed by the Office of Inspector General, an assessment of the agency's progress in addressing previously identified challenges, as well as emerging issues facing the Department. This year we have used a different methodology for categorizing the challenges, essentially distinguishing between mission-related areas with inherent management risks and those aspects of the Department's operations in which we have identified specific internal control challenges. Additionally, we have developed a "watch list" that reflects operational or programmatic functions that need, in our judgment, to be closely monitored by Department management.

The following are the most serious challenge areas that the Department of Energy will need to address in 2004 and beyond:

Mission-Related Challenges

- Environmental Cleanup
- Contract Administration
- National Security

Internal Control Challenges

- Project Management
- Stockpile Stewardship
- Information Technology

Beginning in March of 2003, senior Department leadership initiated a robust initiative to address ñ and, if possible, resolve ñ each of the management challenges identified in last year's performance and accountability report. The Deputy Secretary as the leader of this initiative has been personally invested in its operation, working with the Under Secretaries and Assistant Secretaries to achieve progress. Based on our analysis of this effort, if this initiative continues with the personal involvement of the Department's senior leadership, the processes for defining challenge areas, identifying root causes, and establishing effective corrective action plans will be measurably improved.

In fact, during our review, we concluded that sufficient progress had been made in two areas reported as challenges last year ñ performance management and worker and community safety ñ that we have moved them to our watch list. Also, on this year's watch list, we have included disruptions in energy supply as an emerging issue.

The Inspector General looks forward to working with the Department's senior staff in a continuing effort to improve Department programs and operation, particularly as they relate to the management challenge issues.

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OTHER STATUTORY REPORTING

MANAGEMENT'S RESPONSE TO AUDIT REPORTS

INSPECTOR GENERAL AUDIT REPORTS

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the Inspector General, and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. This audit resolution and follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability. The Inspector General Act, as amended, requires that we report on the status of our progress in implementing these corrective actions semiannually. We are fulfilling that requirement by providing that information for the entire fiscal year in this section.

During Fiscal Year 2003, the Department took final action on 43 Inspector General reports with the agreed upon actions that were open after one year and had taken final action on four Inspector General operational, financial, and pre-award audit reports. At the end of the period, 120 reports awaited final action. Some of these reports contain recommendations to make changes to our operations in order to save funds that could be reapplied elsewhere in the future.

Also during this period, there were no management decisions made on three Inspector General contract audit reports. At the end of the Fiscal Year, there were four contract audit reports pending final action.

GENERAL ACCOUNTING OFFICE AUDIT REPORTS

The U. S. General Accounting Office audits are a major component of the Department's audit follow-up program. During Fiscal Year 2003, we received 49 audit start notifications and were issued five drafts and 15 final General Accounting Office audit reports. Of the 15 final reports, ten required tracking of corrective actions and five did not because the reports did not include actions to be taken by the Department. In addition, we completed agreed upon corrective actions on nine audit reports. At the end of Fiscal Year 2003, there were eight General Accounting Office reports with agreed upon actions open after one year.

STATUS OF FINAL ACTION ON INSPECTOR GENERAL AUDIT REPORTS FOR FISCAL YEAR 2003

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations where management has agreed that funds should be put to better use.

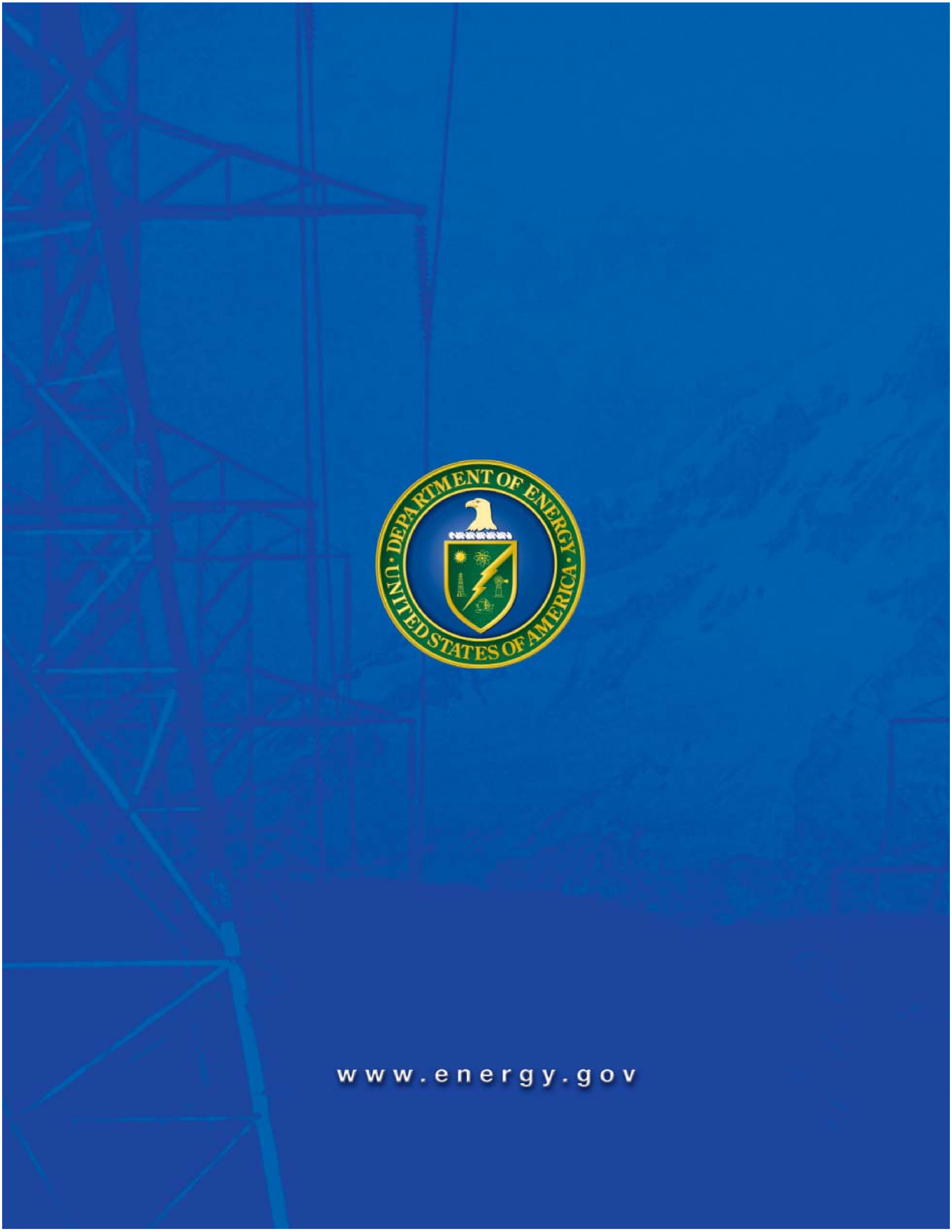
AUDIT REPORTS	NUMBER OF REPORTS	AGREED-UPON FUNDS PUT TO BETTER USE ($ IN MILLIONS)
PENDING FINAL ACTION AT THE BEGINNING OF THE PERIOD	97	$71
WITH ACTIONS AGREED UPON DURING THE PERIOD	66	$254
TOTAL PENDING FINAL ACTION	163	$325
ACHIEVING FINAL ACTION DURING THE PERIOD	43	$68
REQUIRING FINAL ACTION AT THE END OF THE PERIOD	120	$257

We welcome your comments on how we can improve the Department of Energy's Performance and Accountability Report.

Please provide comments to:

beverly.pershing@hq.doe.gov

or (301) 903-2551


www.energy.gov