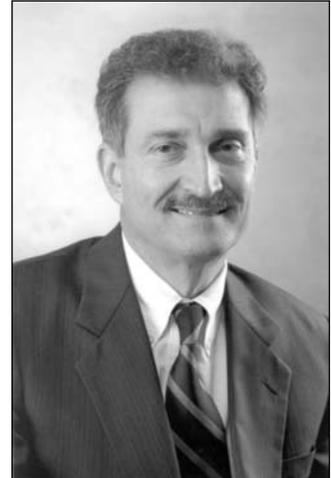


# A Message from the Chief Financial Officer

Fiscal year (FY) 2003 has been a momentous year for SSA in the area of financial management. For the tenth consecutive year, SSA received an unqualified (clean) opinion on the Agency's consolidated financial statements. The clean audit opinions SSA has received over the past decade provide continued assurance that our financial statements report reliable information about the administration of the Social Security programs. In June 2003, SSA became one of only three Federal agencies to achieve a "green" score in status for the Improved Financial Performance category of the five part President's Management Agenda (PMA) for improving the Federal Government. Finally, for the fifth consecutive year, receipt of the Association of Government Accountants "Certificate of Excellence in Accountability Reporting" award for our FY 2002 Performance and Accountability Report emphasizes the quality of our financial statements and that of the full Performance and Accountability Report.



During FY 2003, SSA continued to support the governmentwide effort to accelerate financial reporting. For the second year in a row, we issued audited financial statements only 45 days after the close of the FY, meeting the Office of Management and Budget (OMB) FY 2004 requirement. Also, during 2003, we met the requirement for submitting quarterly unaudited financial statements to OMB 21 days after the end of the quarter, one year ahead of OMB's schedule. In addition, SSA did not declare any new material weaknesses under the Federal Manager's Financial Integrity Act and has no material weaknesses.

The unqualified opinion on our financial statements attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The auditor stated, however, that SSA had a reportable condition that required the Agency to further strengthen controls to protect its information. They also indicated that SSA had made notable progress in strengthening those controls by implementing a comprehensive security framework. During the next year, SSA will continue to monitor those security improvements to ensure compliance throughout the Agency. SSA's plans to correct this reportable condition and a description of the Agency's FMFIA program are addressed in the "Systems and Controls" section of this report.

Our goals in the coming year will include continuing this same high level of quality financial services that resulted in the successes mentioned above and to improve those services. To this end, on October 1, 2003, we implemented a new accounting system. While our old accounting system served us well over the past decade, our new web-based accounting system will provide better control of Agency funds and provide more timely information to SSA managers. We will continue to focus on the initiatives outlined in the PMA in the financial area and will continue to work toward developing a modernized cost accounting system. Our goal remains to produce timely, reliable and useful data to Congress and to the American public.

  
Dale W. Sopper  
Chief Financial Officer

# Financial Statements and Additional Information

The Agency's financial statements and additional information for fiscal years (FY) 2003 and 2002 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2003 and 2002, amounts of economic benefits owned or managed by SSA (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of SSA operations for the years ended September 30, 2003 and 2002. SSA's net cost of operations includes the gross costs incurred by SSA less any exchange revenue earned from SSA activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of SSA's programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the years ended September 30, 2003 and 2002. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by SSA's major programs as additional information.
- The **Combined Statements of Budgetary Resources (SBR)** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the years ended September 30, 2003 and 2002. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by SSA's major programs.
- The **Consolidated Statements of Financing** reconciles the net cost of operations with the obligation of budgetary resources for the years ended September 30, 2003 and 2002. A Schedule of Financing is provided to present the reconciliation by SSA's major programs as additional information.

One significant change in the FY 2003 reporting relates to the supplementary schedules, which present information by major program. In prior years, LAE activity was allocated among the various programs. This year it is reported as a separate entity.

Consolidated Balance Sheets as of  
September 30, 2003 and September 30, 2002

Assets	(Dollars in Millions)	
	2003	2002
Intragovernmental:		Reclassified
Fund Balance with Treasury (Note 4)	\$ 2,310	\$ 2,098
Investments (Note 5)	1,484,219	1,329,045
Interest Receivable, Net (Note 6)	20,933	20,262
Accounts Receivable, Net (Note 6)	872	751
<b>Total Intragovernmental</b>	<b>1,508,334</b>	1,352,156
Accounts Receivable, Net (Notes 3 and 6)	5,830	5,692
Property, Plant and Equipment, Net (Note 7)	909	690
Other	6	4
<b>Total Assets</b>	<b>\$ 1,515,079</b>	\$ 1,358,542
<b>Liabilities (Note 8)</b>		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,767	\$ 3,713
Accounts Payable	6,410	7,024
Other	110	124
<b>Total Intragovernmental</b>	<b>10,287</b>	10,861
Benefits Due and Payable	49,487	47,684
Accounts Payable	387	494
Other	1,133	1,142
<b>Total</b>	<b>61,294</b>	60,181
<b>Net Position</b>		
Unexpended Appropriations	705	794
Cumulative Results of Operations	1,453,080	1,297,567
<b>Total Net Position</b>	<b>1,453,785</b>	1,298,361
<b>Total Liabilities and Net Position</b>	<b>\$ 1,515,079</b>	\$ 1,358,542

Consolidated Statements of Net Cost for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>OASI Program</b>		
Benefit Payments	\$ 397,654	\$ 385,777
Operating Expenses (Note 9)	2,481	2,299
Total Cost of OASI Program	400,135	388,076
Less: Exchange Revenues (Notes 10 and 11)	7	8
<b>Net Cost of OASI Program</b>	<b>400,128</b>	<b>388,068</b>
<b>DI Program</b>		
Benefit Payments	69,800	66,964
Operating Expenses (Note 9)	2,045	1,953
Total Cost of DI Program	71,845	68,917
Less: Exchange Revenues (Notes 10 and 11)	7	7
<b>Net Cost of DI Program</b>	<b>71,838</b>	<b>68,910</b>
<b>SSI Program</b>		
Benefit Payments	33,217	30,239
Operating Expenses (Note 9)	2,789	2,788
Total Cost of SSI Program	36,006	33,027
Less: Exchange Revenues (Notes 10 and 11)	265	278
<b>Net Cost of SSI Program</b>	<b>35,741</b>	<b>32,749</b>
<b>Other</b>		
Benefit Payments	429	458
Operating Expenses (Note 9)	1,292	1,251
Total Cost of Other	1,721	1,709
Less: Exchange Revenues (Notes 10 and 11)	9	10
<b>Net Cost of Other</b>	<b>1,712</b>	<b>1,699</b>
<b>Total Net Cost</b>		
Benefit Payments	501,100	483,438
Operating Expenses (Note 9)	8,607	8,291
Total Cost	509,707	491,729
Less: Exchange Revenues (Notes 10 and 11)	288	303
<b>Total Net Cost</b>	<b>\$ 509,419</b>	<b>\$ 491,426</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Changes in Net Position for the Years Ended September 30, 2003 and September 30, 2002

	(Dollars in Millions)			
	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Net Position, Beginning Balance</b>	\$ 1,297,567	\$ 794	\$ 1,140,966	\$ 3,528
<b>Budgetary Financing Sources (other than Exchange Revenues)</b>				
Appropriations Received		48,822		46,400
Other Adjustments	0	(128)	(8)	(12)
Appropriations Used	48,783	(48,783)	49,122	(49,122)
Tax Revenues (Note 12)	546,808		537,733	
Interest Revenues	84,220		78,614	
Transfers-In/Out (Note 13)				
Trust Fund Draws and Other - In	1,244		1,138	
Trust Fund Draws and Other - Out	(12,814)		(15,323)	
Railroad Retirement Interchange	(3,802)		(3,686)	
Net Transfers-In/Out	(15,372)		(17,871)	
Other Budgetary Financing Sources	87		81	
<b>Other Financing Sources</b>				
Other Revenue	9		5	
Imputed Financing Sources (Note 14)	397		351	
<b>Total Financing Sources</b>	664,932	(89)	648,027	(2,734)
<b>Net Cost of Operations</b>	509,419		491,426	
<b>Ending Balances</b>	\$ 1,453,080	\$ 705	\$ 1,297,567	\$ 794

The accompanying notes are an integral part of these financial statements.

Combined Statements of Budgetary Resources for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>Budgetary Resources Made Available (Note 15)</b>		Reclassified
<b>Budget Authority</b>		
Appropriations Received	\$ 679,191	\$ 661,470
<b>Unobligated Balances</b>		
Beginning of Period	1,021	2,842
<b>Spending Authority from Offsetting Collections</b>		
Earned		
Collected	3,902	3,866
Change in Receivable	85	1
Change in Unfilled Customer Orders		
Without Advance	1	0
Transfers from Trust Funds		
Collected	7,907	7,581
Anticipated	28	139
Subtotal	11,923	11,587
Recoveries of Prior Year Obligations	360	229
Temporarily Not Available Pursuant to Public Law	(153,686)	(154,054)
Permanently Not Available	(180)	(11)
<b>Total Budgetary Resources</b>	<b>\$ 538,629</b>	<b>\$ 522,063</b>
<b>Status of Budgetary Resources: (Note 15)</b>		
<b>Obligations Incurred:</b>		
Direct	\$ 525,561	\$ 508,552
Reimbursable	3,951	3,758
Exempt from Apportionment	8,187	8,732
Subtotal	537,699	521,042
<b>Unobligated Balances</b>		
Apportioned	709	846
<b>Unobligated Balances - Not Available</b>	221	175
<b>Total Status of Budgetary Resources</b>	<b>\$ 538,629</b>	<b>\$ 522,063</b>
<b>Relationship of Obligations to Outlays:</b>		
<b>Obligated Balances - Beginning of the Period</b>	\$ 56,299	\$ 51,442
<b>Obligated Balance - End of the Period</b>		
Accounts Receivable	(1,820)	(1,707)
Unfilled Customer Orders	(1)	0
Undelivered Orders	1,150	1,031
Accounts Payable	58,739	56,975
<b>Outlays:</b>		
Disbursements	535,456	515,815
Collections	(11,809)	(11,446)
Subtotal	523,647	504,369
<b>Less: Offsetting Receipts</b>	15,626	15,761
<b>Net Outlays</b>	<b>\$ 508,021</b>	<b>\$ 488,608</b>

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Financing for the Years Ended  
September 30, 2003 and September 30, 2002

	(Dollars in Millions)	
	2003	2002
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 537,699	\$ 521,042
Less: Offsetting Collections	(12,283)	(11,816)
Obligations Net of Offsetting Collections	525,416	509,226
Less: Offsetting Receipts	(15,626)	(15,761)
Net Obligations	509,790	493,465
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	9	0
Imputed Financing	397	351
Other	(256)	(267)
Net Other Resources Used to Finance Activities	150	84
Total Resources Used to Finance Activities	509,940	493,549
<b>Resources Not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated, Not Yet Provided	(117)	445
Resources that Fund Capitalized Costs	(387)	(120)
Resources that Fund Expenses Recognized in Prior Periods	(337)	(1,649)
Budgetary Offsetting Collections and Receipts that Do Not affect Net Cost of Operations	15,627	15,761
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(15,631)	(16,444)
Total Resources Not Part of the Net Cost of Operations	(845)	(2,007)
Total Resources Used to Finance the Net Cost of Operations	509,095	491,542
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods (Note 16)		
Increase in Annual Leave	13	18
Other	162	71
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	175	89
Components Not Requiring or Generating Resources		
Depreciation and Amortization	158	141
Other	(9)	(346)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	149	(205)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	324	(116)
<b>Net Cost of Operations</b>	<b>\$ 509,419</b>	<b>\$ 491,426</b>

The accompanying notes are an integral part of these financial statements.

**Notes to the Principal Financial Statements**  
**For the Years Ended September 30, 2003 and 2002**  
**(Presented in Millions)**

***1. Summary of Significant Accounting Policies***

**Reporting Entity**

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance programs (OASDI), the Supplemental Security Income (SSI) program, and Black Lung (BL). SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources as required by the Chief Financial Officers Act of 1990.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). These statements are different from the financial reports, also prepared by SSA, pursuant to OMB directives that are used to monitor and control SSA's use of budgetary resources. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting of three trust funds, three deposit funds, and four general fund appropriations. The trust funds are the Old-Age and Survivors Insurance (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund and the Limitations on Administrative Expenses (LAE). The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by the Social Security Administration. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds, SSI Program and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE and Other. Other consists primarily of Payments to the Trust Fund (PTF) appropriations but also contains non-material activities including BL. The fund balance with the Department of the Treasury, shown on the Balance Sheet, represents the total of all SSA's account balances with the Department of the Treasury.

**Investments**

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issues and bonds. Special issues are special public debt obligations for purchase exclusively by the trust funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Balance Sheet. U.S. Treasury bonds are carried at amortized cost.

## **Property, Plant and Equipment**

SSA's property, plant and equipment (PP&E) are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the trust funds for their use of trust fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. SSA capitalizes new property, plant and equipment costing over \$100,000.

The change in PP&E from one reporting period to the next is presented on the Statement of Financing's Resources that Fund Capitalized Costs. This line item presents the effect on budgetary obligations for capital assets purchased by the OASI, DI and Health Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' (CMS) financial statements.

## **Benefits Due and Payable**

Liabilities are accrued for OASI, DI and BL benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases (See Note 8, Liabilities).

## **Administrative Expenses and Obligations**

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the Social Security Act requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate trust or general fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate trust fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. As transfers are made from the appropriate trust or general funds into LAE, similar obligations are recorded in each of these financing sources. Since LAE is reported with its funding sources (other than the HI/SMI Trust Funds) on the SBR and the SBR is a combined statement that does not allow eliminations, LAE's obligations are recorded twice on the SBR. This is in compliance with OMB's directive to have the SBR in agreement with the required Budget Execution Reports (SF-133's).

## **Recognition of Financing Sources**

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations used includes payments and accruals for the SSI and BL programs and for the OIG and PTF appropriations, which are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), credits for military service, income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See Note 12, Tax Revenues).

Exchange revenue from sales of goods and services primarily include payments SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Reimbursements are recognized as the services are performed (See Note 10, Exchange Revenues). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment as specified by law.

Capitalized expenditures are recognized in the Statement of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

## **Reclassifications**

SSI Overpayments from beneficiaries are collected by SSA but are deposited to a general fund account. An accounts payable to the general fund is established in the amount of the receivable from the beneficiary. Previously, this liability was reported on the Balance Sheet as Other Liabilities. In FY 2003, SSA has reclassified this payable from Other Liabilities to Accounts Payable.

Certain other FY 2002 balances have been reclassified to conform to FY 2003 financial statement presentations, the effect of which is immaterial.

## **2. *Centralized Federal Financing Activities***

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance and health benefit programs. Accordingly, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statement of Changes in Net Position may be from tax revenue, public borrowing or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were \$130 and \$160 million for the years ended September 30, 2003 and 2002. SSA contributions to the basic FERS plan were \$171 and \$158 million for the years ended September 30, 2003 and 2002. In addition, SSA contributions to the FERS savings plan were \$65 and \$59 million for the years ended September 30, 2003 and 2002. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

### 3. *Non-Entity Assets*

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are \$1,686 and \$2,553 million for the years ended September 30, 2003 and 2002. The Non-Entity Assets are composed of (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable and (2) fees collected to administer SSI State Supplementation that are returned to the General Fund.

The SSI receivable amounts included as a part of Accounts Receivable, Net on the Consolidated Balance Sheets are \$1,537 and \$2,401 million as of September 30, 2003 and 2002. The SSI accounts receivable, net has been reduced by \$4,936 and \$4,679 million for FY 2003 and 2002 respectively as intra-agency elimination. FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI Federal benefit overpayments be deposited in the General Fund of the Treasury. These funds, upon deposit, are assets of the General Fund of the Treasury and shall not be used by SSA as a SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable is recognized as a non-entity asset.

The amounts of fees collected to administer SSI State Supplementation are \$149 and \$152 million for the years ended September 30, 2003 and 2002. The amounts reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets, represent fee collections deposited directly to a Treasury General Fund. The fee collection is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. A corresponding accounts payable to the General Fund is presented so that net position is not affected by this activity. Refer to Note 10. Exchange Revenue, for a description of the SSI State Supplementation fees.

### 4. *Fund Balance with Treasury*

The Fund Balance with Treasury, shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Appropriated Funds includes BL, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources.

Chart 4a - Fund Balances as of September 30:			Chart 4b - Status of Fund Balances as of September 30:		
	2003	2002 (Reclassified)		2003	2002
Trust Funds			Unobligated Balance		
OASI	\$ (24)	\$ (19)	Available	\$ 465	\$ 667
DI	359	(137)	Unavailable	71	75
LAE	(132)	(46)	Obligated Balance not yet		
Appropriated Funds			Disbursed	988	956
SSI	1,999	2,187	Expended/Unexpended	203	(179)
Other	108	113	Deposit & Receipt Accounts	583	579
Total	\$ 2,310	\$ 2,098	Total	\$ 2,310	\$ 2,098

In FY 2003 and 2002, the negative fund balances reported for the trust funds are the result of the policy to protect the trust fund investments by not liquidating the investments until the cash is needed. Transfers between the trust funds and Treasury are managed to favor the financial position of the trust funds. Therefore, investments held by the trust funds are liquidated only as needed by Treasury to cover benefit payment checks. To maintain consistency with Treasury year-end reporting requirements, the negative balances were not reclassified as liabilities on the Balance Sheet.

## 5. *Investments*

Chart 5 displays SSA's investments in U.S. par-value Treasury special securities and U.S. Treasury bonds at amortized cost. Treasury specials are Treasury securities that are issued directly by the Treasury Secretary to a government investment account that are non-negotiable and non-transferable in the secondary market. Par-value Treasury specials are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. The interest rates on these investments range from 3 1/2 percent to 8 3/4 percent and are payable on September 30, December 31, and at maturity or redemption. Investments held for the trust funds mature at various dates ranging from the present to the year 2017.

	2003	2002
Special Issue U.S. Treasury Securities	\$ 1,484,189	\$ 1,329,015
U.S. Treasury Bonds - Carrying value	30	30
Total Investments	\$ 1,484,219	\$ 1,329,045

## 6. *Interest and Accounts Receivable*

### Interest Receivable

Intragovernmental Interest Receivable, Net reported on the Consolidated Balance Sheets consists of accrued interest receivable on trust fund investments with the U.S. Treasury. Interest amounts are \$20,933 million and \$20,262 million for the years ended September 30, 2003 and 2002.

### Accounts Receivable

#### Intragovernmental

Intragovernmental Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6a. OASI and DI amounts consist of military service wage credits (MSWC) that should have been transferred to the OASI and DI Trust Funds from the Department of Defense (DoD). The LAE amount represents receivables to be paid from the HI/SMI Trust Funds.

	2003	2002 (Reclassified)
	Gross/Net Receivable	Gross/Net Receivable
OASI	\$ 531	\$ 443
DI	90	74
SSI	0	0
Other	0	0
LAE	1,735	1,712
Sub-Total	2,356	2,229
Less:		
Elimination*	(1,484)	(1,478)
Total	\$ 872	\$ 751

\* Intra-agency Eliminations

Members of the uniformed services contribute to Social Security, and their potential benefits are based on taxable wages. Congress determined that these individuals are disadvantaged because their basic pay is augmented by various allowances; that is, allowances in forms other than taxable wages that were not used in determining Social Security benefits. To remedy this situation, section 229 of the Social Security Act provides that members of the uniformed services will be “deemed” wage credits for these allowances, thus, increasing their eligibility for benefits.

The law requires that DoD reimburse the Trust Funds for this activity each July 1; and, until FY 2000, DoD made the payments in a timely manner. As of September 30, 2003, and 2002, \$621 and \$517 million, respectively, remain unpaid largely from fiscal years 2000 and 2001. DoD asserts that its Military Personnel appropriation is not large enough to make all of the payments required by the DoD Appropriation Act and, therefore, it cannot make the payment required by Section 229. However, SSA believes that the appropriations are, in fact, budgeted for MSWC reimbursements and accordingly has retained the accounts receivable and not written off the receivable as uncollectible.

The Administration’s 2004 budget reflects a legislative proposal to make the trust funds whole for unpaid FICA tax equivalents for MSWC, including interest lost due to late payment. Since the budget was submitted to Congress, the actual proposal was written to also include adjustments for prior years with related interest, as well as a provision to end any future adjustments that would otherwise continue to be necessary. SSA intends to maintain accounts receivable of \$621 million in its accounting records until payment is made, or such legislation fails to pass and OMB indicates a debt no longer exists based on Congressional actions.

An allowance for doubtful accounts was not applied to determine the net value of Intragovernmental accounts receivable. According to SFFAS No. 1, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

Chart 6a also shows that in FY 2003 and FY 2002, gross accounts receivable was reduced by \$1,484 and \$1,478 million as an intra-agency elimination. This elimination is to offset SSA’s LAE receivable to be paid from the appropriate trust or general fund with corresponding trust or general fund payables set up for anticipated LAE disbursements.

### With the Public

Accounts Receivable, Net reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6b. Amounts in the OASI, DI, and BL (included in Other) programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents overpaid SSI Federal and State SSI supplementation payments to be recovered from SSI recipients who are no longer eligible to receive supplemental income or receive benefits in excess of their eligibility. See Note 3, Non-Entity Assets, for a discussion of the SSI Federal and State overpayments.

	2003			2002 (Reclassified)		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,088	\$ (96)	\$ 1,992	\$ 1,274	\$ (92)	\$ 1,182
DI	3,011	(1,027)	1,984	2,735	(887)	1,848
SSI*	8,315	(1,702)	6,613	8,519	(1,393)	7,126
Other	7	0	7	4	0	4
LAE	170	0	170	211	0	211
Sub-Total	13,591	(2,825)	10,766	12,743	(2,372)	10,371
Less:						
Eliminations**	(4,936)	0	(4,936)	(4,679)	0	(4,679)
Total	\$ 8,655	\$ (2,825)	\$ 5,830	\$ 8,064	\$ (2,372)	\$ 5,692

\*See Discussion in Note 3, Non-Entity Assets    \*\* Intra-Agency Eliminations

In FY 2001, SSA detected an error which affected about 228,000 SSI recipients who were eligible to receive DI benefits, but were paid either SSI or OASI benefits. At that time, OASI and SSI receivables were established for \$56 and \$3,770 million. In FY 2002, the domain for this Special Disability Workload (SDW) increased to about 251,000 cases, and the receivable amounts were netted with payables and reported as net accrued liabilities. SDW estimated receivables grew due to the cases not yet adjudicated, and decreased by the amount of adjudicated cases. In FY 2003, estimates have been further reduced due to refinements in the actual counting of cases potentially affected, and further downward revisions to the assumptions about the fraction of cases which will eventually result in claims being taken. In addition, receivables have increased due to refinements in the analysis of the impact on Federal SSI payments. The net affect of these refinements is an increase in OASI SDW receivables and a decrease in DI and SSI SDW receivables.

Current estimates indicate that there are about 179,704 SDW cases remaining. For FY 2003, SDW receivables are included in Chart 6b. OASI SDW receivables are \$851 and \$830 million for the years ended September 30, 2003 and 2002. DI SDW receivables are \$11 and \$29 million for the years ended September 30, 2003 and 2002. SSI SDW receivables are \$3,902 and \$4,401 million for the years ended September 30, 2003 and September 30, 2002.

Chart 6b shows that in FY 2003 and FY 2002, gross accounts receivable was reduced by \$4,936 and \$4,679 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Since payment of the retroactive OASI and DI benefits results in an overpayment of SSI benefits, the overpaid SSI amounts are offset from the OASI and DI retroactive payments. Therefore, these offsets are presented as intra-agency elimination.

A ratio of the estimated allowance for doubtful accounts is redetermined annually using a moving 5-year average of write-offs divided by clearances comprised of write-offs, waivers and collections. The ratio is then applied to outstanding receivables to compute the amount of allowance for doubtful accounts.

## 7. *Property, Plant and Equipment*

Property, Plant and Equipment, Net as reported on the Consolidated Balance Sheets is reflected by major class in chart 7.

Chart 7 - Property, Plant and Equipment as of September 30:

Major Classes:	2003			2002 (Reclassified)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 5	\$ 0	\$ 5	\$ 5	\$ 0	\$ 5
Buildings	383	(180)	203	362	(171)	191
Equipment (incl. ADP Hardware)	327	(241)	86	282	(180)	102
Internal Use Software	740	(158)	582	459	(94)	365
Leasehold Improvements	185	(152)	33	130	(103)	27
Total	\$ 1,640	\$ (731)	\$ 909	\$ 1,238	\$ (548)	\$ 690

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	over 20 years	Straight Line
Equipment (incl. ADP Hardware)	7 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	over 20 years	Straight Line

## 8. *Liabilities*

Liabilities of Federal agencies are classified as liabilities covered or not covered by budgetary resources and are recognized when they are incurred. Chart 8a discloses SSA's liabilities covered by budgetary resources and not covered by budgetary resources.

Chart 8a - Liabilities as of September 30:

	2003			2002 (Reclassified)		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RR Retirement Interchange	\$ 3,767	\$ 0	\$ 3,767	\$ 3,713	\$ 0	\$ 3,713
Accounts Payable	0	6,410	6,410	0	7,024	7,024
Other	59	51	110	76	48	124
Total Intragovernmental	3,826	6,461	10,287	3,789	7,072	10,861
Benefits Due and Payable	48,391	1,096	49,487	46,320	1,364	47,684
Accounts Payable	120	267	387	216	278	494
Other	176	957	1,133	592	550	1,142
Total	\$ 52,513	\$ 8,781	\$ 61,294	\$ 50,917	\$ 9,264	\$ 60,181

### Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. Refer to Note 13, Intra-Governmental Financing Sources, for a description of the RRB transfer.

### Intragovernmental Accounts Payable

Included in the Intragovernmental Accounts Payable not covered by budgetary resources is SSI Receivables Owed to Treasury. This custodial liability is recorded for the collection of SSI benefit overpayments that are payable from SSA to the General Fund of the Treasury when overpayments are identified. It directly relates to the accounts receivable established in the asset portion of the Balance Sheet. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

### Intragovernmental Other Liabilities

Intragovernmental Other Liabilities covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. Intragovernmental Other Liabilities not covered by budgetary resources includes amounts for the Federal Employees' Compensation Act (FECA), administered by Department of Labor (DoL). FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability was \$51 and \$47 million as of September 30, 2003 and 2002.

## Benefits Due and Payable

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs for the years ended September 30, 2003 and 2002. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b include estimated payables related to SDW (See Note 6, Interest and Accounts Receivable). OASI payables are \$773 and \$1,077 million for the years ended September 30, 2003 and 2002. DI payables are \$6,652 and \$7,629 million for the years ended September 30, 2003 and 2002. In FY 2003, the OASI and DI payables have decreased due to downward revisions to the assumptions and refinements in counting potential SDW cases.

Chart 8b also shows that as of FY 2003 and FY 2002, gross Benefits Due and Payable was reduced by \$4,936 and \$4,679 million as intra-agency elimination. This intra-agency activity results primarily from SDW cases (See Note 6, Interest and Accounts Receivable). Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

	2003	2002 (Reclassified)
OASI	\$ 35,878	\$ 34,140
DI	16,967	16,821
SSI	1,541	1,364
Other	37	38
Sub-Total	54,423	52,363
Less: Intra-agency eliminations	(4,936)	(4,679)
Total	\$ 49,487	\$ 47,684

## Accounts Payable

Accounts Payable not covered by budgetary resources consists of payments due to the states for their portion of SSI benefit payments made by SSA, underpayments due to SSI recipients, and the state portion of SSI windfall amounts. Since SSA receives payments from the states for their portion of SSI benefits, any excess payments are returned to the states and recognized as accounts payable.

## Other Liabilities

SSA's Other Liabilities covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds. Other Liabilities not covered by budgetary resources includes the non-current portion of FECA actuarial liability. The non-current portion of \$305 and \$281 million for the years ended September 30, 2003 and 2002 is comprised of claims that will be paid more than one year in the future. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities not covered by budgetary resources is leave earned but not taken.

## Contingent Liabilities

SSA is a party to various class action lawsuits related to benefits paid or payable. These suits may be lost, in whole or in part, in lower courts and/or on appeal and may require a future implementation plan. Any final unfavorable court decisions will be funded from the appropriate trust fund or from the general funds for the SSI program. In the opinion of management and legal counsel, the resolution of the class actions and other claims and lawsuits will not materially affect the financial position or operations of SSA.

## 9. Operating Expenses

### Classification of Operating Expenses by Major Program

Chart 9a displays SSA's operating expenses for each major program. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statement of Net Cost. Trust Fund Operations include expenses of the Department of Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries. BL includes SSA's operational costs to administer the BL, Part B program, which is performed for SSA on a reimbursable basis by the DOL.

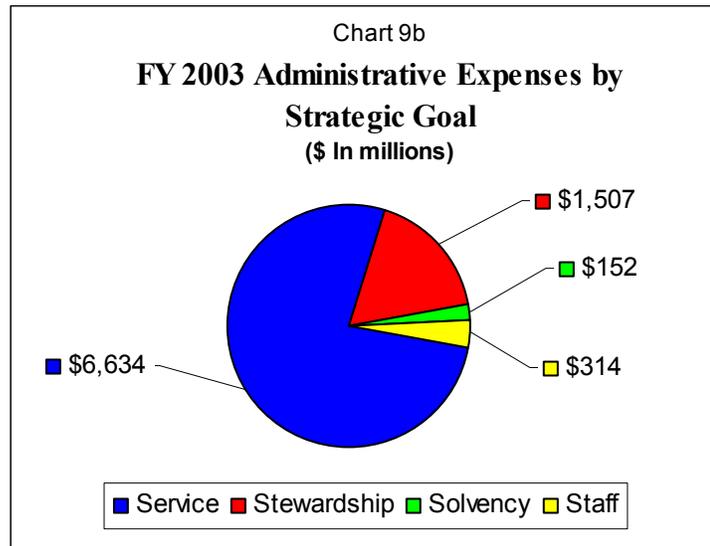
Chart 9a - SSA's Operating Expenses by Major Program as of September 30:						
2003						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	\$ 2,162	\$ 30	\$ 289	\$ 0	\$ 0	\$ 2,481
DI	1,917	26	54	48	0	2,045
SSI	2,747	0	0	42	0	2,789
Other	1,265	19	0	0	8	1,292
	<u>\$ 8,091</u>	<u>\$ 75</u>	<u>\$ 343</u>	<u>\$ 90</u>	<u>\$ 8</u>	<u>\$ 8,607</u>
Chart 9a - SSA's Operating Expenses by Major Program as of September 30:						
2002 (Reclassified)						
	LAE SSA	OIG	Trust Fund Operations	Vocational Rehabilitation	Other	Total
OASI	\$ 2,043	\$ 28	\$ 228	\$ 0	\$ 0	\$ 2,299
DI	1,829	26	43	55	0	1,953
SSI	2,700	0	0	88	0	2,788
Other	1,228	15	0	0	8	1,251
	<u>\$ 7,800</u>	<u>\$ 69</u>	<u>\$ 271</u>	<u>\$ 143</u>	<u>\$ 8</u>	<u>\$ 8,291</u>

### Classification of Operating Expenses by Strategic Goal

In FY 2003, SSA developed a new Agency Strategic Plan (ASP), a FY 2004 Annual Performance Plan (APP), and its budget submission at the same time by completing a full review of strategic goals, objectives, and performance indicators. Changes, additions, and deletions were made in order to help improve performance and improve the way progress is measured. The strategic goals have remained broad and cover the full scope of SSA's work. The four new goals are:

- Service -- To deliver high quality citizen-centered service;
- Stewardship -- To ensure superior stewardship of Social Security programs and resources;
- Solvency -- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations; and
- Staff -- To strategically manage and align staff to support SSA's mission.

Chart 9b exhibits distribution of the FY 2003 administrative expenses to new APP Strategic goals. A corresponding chart for FY 2002 administrative expenses is not displayed because APP strategic goals for FY 2002 and FY 2003 are not comparable.



## ***10. Exchange Revenues***

Revenue from exchange transactions is recognized when goods and services are provided. Total exchange revenue was \$288 and \$303 million for the years ended September 30, 2003 and 2002. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 25 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA earned administration fee revenue in the amount of \$256 and \$267 million for the years ended September 30, 2003 and 2002. A portion of the fees, \$149 and \$152 million for the years ended September 30, 2003 and 2002, is transferred to the Department of Treasury General Fund while the remainder is maintained in the SSA trust funds. In addition, SSA earned \$32 and \$36 million for the years ended September 30, 2003 and 2002 in other exchange revenue. The goods and services provided in these transactions are priced so that charges do not exceed the Agency's cost.

## **11. Gross Cost and Earned Revenue by Budget Functional Classification**

Chart 11a displays gross cost and earned revenue by budget functional classification. General Retirement and Disability Insurance includes the costs and revenues associated with the BL program. Income Security for Veterans includes the costs and revenues to administer the Title VIII, Special Benefits for Certain World War II Veterans program. Other Income Security includes primarily the costs and revenues associated with the SSI program. The Other program reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

	2003			2002 (Reclassified)		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	\$ 421	\$ 0	\$ 421	\$ 449	\$ 0	\$ 449
Income Security for Veterans	9	0	9	14	(5)	9
Other Income Security	33,259	(256)	33,003	30,328	(267)	30,061
Social Security						
OASI	397,943	0	397,943	386,005	0	386,005
DI	69,902	0	69,902	67,062	0	67,062
Other	7	(5)	2	3	0	3
LAE	8,166	(27)	8,139	7,868	(31)	7,837
Subtotal	476,018	(32)	475,986	460,938	(31)	460,907
<b>Total</b>	<b>\$ 509,707</b>	<b>\$ (288)</b>	<b>\$ 509,419</b>	<b>\$ 491,729</b>	<b>\$ (303)</b>	<b>\$ 491,426</b>

Chart 11b displays Intragovernmental gross cost and earned revenue by budget functional classification.

	2003			2002 (Reclassified)		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
General Retirement and Disability Insurance	\$ 0	\$ 0	\$ 0	\$ 4	\$ 0	\$ 4
Other Income Security	7	0	7	7	0	7
Social Security						
OASI	286	0	286	228	0	228
DI	54	0	54	43	0	43
Other	0	0	0	3	0	3
LAE	2,097	(14)	2,083	1,928	(20)	1,908
Subtotal	2,437	(14)	2,423	2,202	(20)	2,182
<b>Total</b>	<b>\$ 2,444</b>	<b>\$ (14)</b>	<b>\$ 2,430</b>	<b>\$ 2,213</b>	<b>\$ (20)</b>	<b>\$ 2,193</b>

## ***12. Tax Revenues***

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security trust funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the trust funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service or SSA. Revenues to the trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes.

Other tax revenues include certain military service wage credits, Taxation of Social Security Benefits and FICA/SECA tax credits. Chart 12 reflects the amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues.

	2003	2002
Estimated Employment Taxes Credited to SSA	\$ 541,183	\$ 529,538
Adjustments	(5,952)	(4,248)
Refunds	(1,787)	(1,091)
Employment Tax Revenues	533,444	524,199
Other Tax Revenues	13,364	13,534
Total Tax Revenues	\$ 546,808	\$ 537,733

## ***13. Intra-Governmental Financing Sources***

SSA receives other intra-governmental financing sources that increase net results of operations during the reporting period. The most significant financing source received from another Federal entity is the drawdown of funds from the HI/SMI Trust Funds for the Medicare program, in the amounts of \$1,214 and \$1,182 million for the years ended September 30, 2003 and 2002. They reimburse SSA's operating expenses to administer a portion of the Medicare program. These amounts represent the majority of the Trust Fund Draws and Other-In line item as presented on the Statement of Changes in Net Position.

Financing outflows may result from transfers of the reporting entity's assets to other government entities. SSA financing outflows mainly consist of PTF transfers for taxation on benefits of \$13,276 and \$13,966 million for the years ended September 30, 2003 and 2002. It also includes a RRB transfer for the annual interchange required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in September. The accrued liability of \$3,767 and \$3,713 million for the years ended September 30, 2003 and 2002, on the Balance Sheet represents amounts due the RRB. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses on the Statement of Net Cost. However, the RRB makes the payments to the qualifying railroad workers on behalf of SSA. SSA compensated RRB in the amount of \$1,163 and \$1,182 million for the years ended September 30, 2003 and 2002.

In addition, a portion of the administrative fees charged to the States to administer the Supplemental SSI benefits program is returned to the U.S. Treasury and amounted to \$149 and \$152 million for the years ended September 30, 2003 and 2002. The Supplemental SSI benefits paid by SSA on behalf of the States were \$3,925 and \$3,736 million for the years ended September 30, 2003 and 2002. These transfers, which negate each other, are received from the States and issued to SSI recipients.

## ***14. Imputed Financing***

The Statement of Net Cost recognizes post-employment benefit expenses of \$706 and \$662 million for the years ended September 30, 2003 and 2002 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance.

The Statement of Changes in Net Position recognizes an imputed financing source of \$397 and \$351 million for the years ended September 30, 2003 and 2002 that represents annual service cost not paid by SSA. The imputed financing source includes \$1 and \$4 million of Judgment fund payments as of September 30, 2003 and 2002. The Judgment Fund is available for most court judgments and Justice Department compromise settlements of actual or imminent lawsuits against the government. When the judgment fund makes a payment on behalf of SSA except for contract disputes, SSA records judgment fund to recognize expenses paid by another entity whether or not a previous contingent liability has been recognized.

## ***15. Budgetary Resources***

### **Appropriations Received**

The Combined Statements of Budgetary Resources (SBR) discloses Appropriations Received of \$679,191 and \$661,470 million for the years ended September 30, 2003 and 2002. Appropriations Received on the Consolidated Statements of Changes in Net Position (SCNP) is \$48,822 and \$46,400 million for the same years. The differences of \$630,369 and \$615,070 million represent appropriated trust fund receipts in OASI and DI, and Rescissions that must be recognized on the SBR. The SCNP reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Fund, or Rescissions.

### **Apportionment Categories of Obligations Incurred**

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as category A. Other apportionments such as activities, projects, objects, or a combination of these categories are classified as category B. For FY 2003, SSA has not received any category A apportionments. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B and Exempt from Apportionment.

	2003			2002 (Reclassified)		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	\$ 525,561	\$ 3,951	\$ 529,512	\$ 508,552	\$ 3,758	\$ 512,310
Exempt	8,187	0	8,187	8,732	0	8,732
Total	\$ 533,748	\$ 3,951	\$ 537,699	\$ 517,284	\$ 3,758	\$ 521,042

## Legal Arrangements Affecting Use of Unobligated Balances

All trust fund receipts collected in the FY are reported as new budget authority in the SBR. As beneficiaries pass the various entitlement tests prescribed by the Social Security Act, benefit payments and other outlays are obligated in the trust funds. The portion of trust fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY, is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the trust funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays trust fund activities and balances. The entire trust fund balances, ending are included in Investments on the Balance Sheet.

	2003	2002 (Reclassified)
Trust Fund Balance, Beginning	\$ 1,273,227	\$ 1,119,173
Receipts	630,322	615,091
Less Obligations	476,636	461,037
Excess of Receipts Over Obligations	153,686	154,054
Trust Fund Balance, Ending	\$ 1,426,913	\$ 1,273,227

## Explanation of Material Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Chart 15c presents a reconciliation of budgetary resources, obligations incurred, and outlays as presented in the SBR, to amounts included in the Budget of the United States Government for the year ended September 30, 2002. Budgetary resources and obligations incurred reconcile to Program and Financing (P & F) Schedules while outlays reconcile to the Analytical Perspectives of the Budget. A reconciliation is not presented for the period ended September 30, 2003, since SSA's FY 2003 Performance and Accountability Report is published in November 2003 and Treasury's MAX system will not have actual budget data until mid-December 2003.

SSA's LAE is funded from the OASI, DI, and HI/SMI Trust Funds and from various General Funds. In FY 2002 a methodology was implemented to establish a payable from these funding sources and an offsetting receivable in LAE. These payables and receivables are reduced as funds are transferred. SSA's financial statements for FY 2001 were restated to show the results of this new methodology. The beginning balance for these payables for FY 2002 from the restated FY 2001 statements is not included on the FY 2002 P & F Schedules. LAE activity reported on the P & F is for unexpired years only. Expired activity is included on the SBR but not on the P & F. Offsetting receipts reported in the budget as outlays mainly consist of Payments to the Trust Fund activity captured as trust fund receipts on the SBR, but removed from budgetary resources as part of unobligated balances. (See discussion above in Legal Arrangements Affecting Use of Unobligated Balances) Offsetting Receipts is the total amount of distributed offsetting receipts that affect outlays.

Chart 15c - Explanation of Material Differences Between Statement of Budgetary Resources and the Budget of the United States Government for FY 2002:

	Budgetary Resources	Status of Resources	Outlays
<b>Combined Statement of Budgetary Resources</b>	\$ 522,063	\$ 522,063	\$ 488,608
Funding Source Payables not on P & F	1,261	1,261	0
Expired activity not on P & F	(301)	(301)	0
Offsetting receipts reported as outlays in the budget	0	0	15,761
BL activity on DOL Budget for FY 2002	(462)	(462)	(452)
Other	27	27	0
<b>Budget of the United States Government</b>	522,588	522,588	503,917

## ***16. Statement of Financing Disclosures***

### **Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods**

Liabilities Not Covered by Budgetary Resources of \$8,781 and \$8,833 million as of September 30, 2003 and 2002, represent SSI Receivables Owed to Treasury, non-current portion of FECA liability to DoL and employees, benefits due and payable for SSI adjudicated and unadjudicated cases, and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Statement of Financing, as Total Components of Net Cost of Operations, that will Require or Generate Resources in Future Periods of \$175 and \$89 million for the years ended September 30, 2003 and 2002, represent the change in SSA expenses for unfunded liabilities for FECA, adjudicated and unadjudicated SSI benefits due and payable, and leave earned but not taken.

## ***17. Incidental Custodial Collections***

SSA's custodial collections primarily consist of recoveries for SSI Federal benefit overpayments. The FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI benefit overpayments be deposited in the General Fund of the Treasury. In addition, other negligible custodial collections occur for interest, fines and penalties. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. In accordance with SFFAS Number 7, non-exchange custodial collections should be measured by the collecting entities, but should be recognized by the entities legally entitled to the revenue; therefore, SSA's custodial collections are not recognized as revenue or presented in the financial statements. SSA's total custodial collections are \$1,985 and \$1,883 million for the years ended September 30, 2003 and 2002.

## ***18. Recovery of Medicare Premiums***

SSA has identified a systematic and reoccurring error in the processing of transfers to the CMS of Medicare Part B premiums. Beneficiaries of OASI and DI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premium transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, did not have procedures to recover Medicare premiums transferred to CMS. SSA estimates that approximately \$800 million of premiums were transferred erroneously to CMS since the inception of the Medicare program. SSA and the Department of Health and Human Services are currently negotiating the resolution of this matter, and accordingly no accounts receivable have been recorded in the accompanying financial statements. However, SSA will continue to pursue the recovery of these premiums.

## Balance Sheet by Major Program as of September 30, 2003

Assets	Dollars in Millions						
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	\$ (24)	\$ 359	\$ 1,999	\$ 108	\$ (132)	\$ 0	\$ 2,310
Investments	1,313,427	170,792	0	0	0	0	1,484,219
Interest Receivable, Net	18,551	2,382	0	0	0	0	20,933
Accounts Receivable, Net	531	90	0	0	1,735	(1,484)	872
Total Intragovernmental	1,332,485	173,623	1,999	108	1,603	(1,484)	1,508,334
Accounts Receivable, Net	1,992	1,984	6,613	7	170	(4,936)	5,830
Property, Plant and Equip., Net	0	0	0	0	909	0	909
Other	0	0	0	0	6	0	6
<b>Total Assets</b>	<b>\$ 1,334,477</b>	<b>\$ 175,607</b>	<b>\$ 8,612</b>	<b>\$ 115</b>	<b>\$ 2,688</b>	<b>\$ (6,420)</b>	<b>\$ 1,515,079</b>
<b>Liabilities</b>							
Intragovernmental:							
Accrued RRI	\$ 3,545	\$ 222	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,767
Accounts Payable	523	407	6,964	0	0	(1,484)	6,410
Other	0	0	0	0	110	0	110
Total Intragovernmental	4,068	629	6,964	0	110	(1,484)	10,287
Benefits Due and Payable	35,878	16,967	1,541	37	0	(4,936)	49,487
Accounts Payable	1	4	263	0	119	0	387
Other	2	2	353	18	758	0	1,133
Total	39,949	17,602	9,121	55	987	(6,420)	61,294
<b>Net Position</b>							
Unexpended Appropriations	0	0	633	60	12	0	705
Cumulative Results of Operations	1,294,528	158,005	(1,142)	0	1,689	0	1,453,080
Total Net Position	1,294,528	158,005	(509)	60	1,701	0	1,453,785
<b>Total Liabilities and Net Position</b>	<b>\$ 1,334,477</b>	<b>\$ 175,607</b>	<b>\$ 8,612</b>	<b>\$ 115</b>	<b>\$ 2,688</b>	<b>\$ (6,420)</b>	<b>\$ 1,515,079</b>

Schedule of Net Cost for the Year Ended  
September 30, 2003

	Program	LAE	Total
<b>OASI Program</b>			
Benefit Payments	\$ 397,654	\$ 0	\$ 397,654
Operating Expenses (Note 9)	289	2,192	2,481
Total Cost of OASI Program	397,943	2,192	400,135
Less: Exchange Revenues (Notes 10 and 11)	0	7	7
<b>Net Cost of OASI Program</b>	<b>397,943</b>	<b>2,185</b>	<b>400,128</b>
<b>DI Program</b>			
Benefit Payments	69,800	0	69,800
Operating Expenses (Note 9)	102	1,943	2,045
Total Cost of DI Program	69,902	1,943	71,845
Less: Exchange Revenues (Notes 10 and 11)	0	7	7
<b>Net Cost of DI Program</b>	<b>69,902</b>	<b>1,936</b>	<b>71,838</b>
<b>SSI Program</b>			
Benefit Payments	33,217	0	33,217
Operating Expenses (Note 9)	42	2,747	2,789
Total Cost of SSI Program	33,259	2,747	36,006
Less: Exchange Revenues (Notes 10 and 11)	256	9	265
<b>Net Cost of SSI Program</b>	<b>33,003</b>	<b>2,738</b>	<b>35,741</b>
<b>Other</b>			
Benefit Payments	429	0	429
Operating Expenses (Note 9)	8	1,284	1,292
Total Cost of Other	437	1,284	1,721
Less: Exchange Revenues (Notes 10 and 11)	5	4	9
<b>Net Cost of Other</b>	<b>432</b>	<b>1,280</b>	<b>1,712</b>
<b>Total Net Cost</b>			
Benefit Payments	501,100	0	501,100
Operating Expenses (Note 9)	441	8,166	8,607
Total Cost	501,541	8,166	509,707
Less: Exchange Revenues (Notes 10 and 11)	261	27	288
<b>Total Net Cost</b>	<b>\$ 501,280</b>	<b>\$ 8,139</b>	<b>\$ 509,419</b>

Schedule of Changes in Net Position for the Year Ended September 30, 2003

(Dollars in Millions)									
	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated		
	Cumulative Results of Operations								
	Unexpended Appropriations								
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Net Position, Beginning Balance</b>	1,155,165	141,939	(1,004)	62	1,467	0	1,297,567	794	
<b>Budgetary Financing Sources (than Exchange Revenues)</b>									
Appropriations Received			35,077	13,723	22			48,822	
Other Adjustments	0	0	(111)	(17)	0	0	0	(128)	
Appropriations Used	0	0	(35,055)	(13,708)	20	0	48,783	(48,783)	
Tax Revenues	468,442	78,366	0	0	0	0	546,808		
Interest Revenues	74,599	9,621	0	0	0	0	84,220		
Transfers-In/Out									
Trust Fund Draws and Other - In	4	3	0	0	7,935	(6,698)	1,244		
Trust Fund Draws and Other - Out	(2,143)	(1,903)	(2,190)	(13,276)	0	6,698	(12,814)		
Railroad Retirement Interchange	(3,611)	(191)	0	0	0	0	(3,802)		
Total Transfers-In/Out	(5,750)	(2,091)	(2,190)	(13,276)	7,935	0	(15,372)		
Other Budgetary Financing Sources	15	72	0	0	0	0	87		
<b>Other Financing Sources</b>									
Other Revenue	0	0	0	0	9	0	9		
Imputed Financing Sources	0	0	0	0	397	0	397		
<b>Total Financing Sources</b>	537,306	85,968	32,865	(89)	8,361	0	664,932	(89)	
<b>Net Cost of Operations</b>	397,943	69,902	33,003	432	8,139	0	509,419		
<b>Ending Balances</b>	1,294,528	158,005	(1,142)	60	1,689	0	1,453,080	705	

## Schedule of Financing for the Year Ended September 30, 2003

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Consolidated
<b>Resources Used to Finance Activities:</b>						
<b>Budgetary Resources Obligated</b>						
Obligations Incurred	\$ 404,506	\$ 72,130	\$ 39,142	\$ 13,715	\$ 8,206	\$ 537,699
Less: Offsetting Collections	0	0	(4,095)	(7)	(8,181)	(12,283)
Obligations Net of Offsetting Collections	404,506	72,130	35,047	13,708	25	525,416
Less: Offsetting Receipts	(12,368)	(990)	(256)	(1,984)	(28)	(15,626)
Net Obligations	392,138	71,140	34,791	11,724	(3)	509,790
<b>Other Resources</b>						
Transfers In/Out Without Reimbursement (+/-)	0	0	0	0	9	9
Imputed Financing	0	0	0	0	397	397
Other	0	0	(256)	0	0	(256)
Net Other Resources Used to Finance Activities	0	0	(256)	0	406	150
Total Resources Used to Finance Activities	392,138	71,140	34,535	11,724	403	509,940
<b>Resources Not Part of the Net Cost of Operations:</b>						
Change in Budgetary Resources Obligated, Not Yet Provided	0	2	11	0	(130)	(117)
Resources That Fund Capitalized Costs	0	0	0	0	(387)	(387)
Resources That Fund Expenses Recognized In Prior Periods	(810)	(136)	610	0	(1)	(337)
Budgetary Offsetting Collections And Receipts That Do Not Affect Net Cost of Operations	12,369	990	256	1,984	28	15,627
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(5,754)	(2,094)	(2,543)	(13,276)	8,036	(15,631)
Total Resources Not Part of the Net Cost of Operations	5,805	(1,238)	(1,666)	(11,292)	7,546	(845)
Total Resources Used to Finance the Net Cost of Operations	397,943	69,902	32,869	432	7,949	509,095
<b>Components of the Net Cost of Operations That Will Not Require of Generate Resources in the Current Period</b>						
<b>Components Requiring or Generating Resources in Future Periods</b>						
Increase in Annual Leave	0	0	0	0	13	13
Other	0	0	134	0	28	162
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	0	0	134	0	41	175
<b>Components Not Requiring or Generating Resources</b>						
Depreciation and Amortization	0	0	0	0	158	158
Other	0	0	0	0	(9)	(9)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	0	0	0	0	149	149
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in Current Period	0	0	134	0	190	324
<b>Net Cost of Operations</b>	<b>\$ 397,943</b>	<b>\$ 69,902</b>	<b>\$ 33,003</b>	<b>\$ 432</b>	<b>\$ 8,139</b>	<b>\$ 509,419</b>

Required Supplementary Information: Schedule of Budgetary Resources  
as of September 30, 2003

	(Dollars in Millions)					
	OASI	DI	SSI	Other	LAE	Combined
<b>Budgetary Resources Made Available</b>						
<b>Budget Authority</b>						
Appropriations Received	\$ 542,348	\$ 87,974	\$ 35,077	\$ 13,720	\$ 72	\$ 679,191
<b>Unobligated Balances</b>						
Beginning of Period	0	0	613	59	349	1,021
<b>Spending Authority from Offsetting Collections</b>						
<b>Earned</b>						
Collected	0	0	3,836	4	62	3,902
Change in Receivable	0	0	90	0	(5)	85
Change in Unfilled Customer Orders						
Without Advance	0	0	0	0	1	1
Transfers from Trust Funds						
Collected	0	0	0	0	7,907	7,907
Anticipated	0	0	0	0	28	28
Subtotal	0	0	3,926	4	7,993	11,923
<b>Recoveries of Prior Year Obligations</b>	0	0	169	3	188	360
<b>Temporarily Not Available Pursuant to Public Law</b>	(137,842)	(15,844)	0	0	0	(153,686)
<b>Permanently Not Available</b>	0	0	(111)	(16)	(53)	(180)
<b>Total Budgetary Resources</b>	<b>\$ 404,506</b>	<b>\$ 72,130</b>	<b>\$ 39,674</b>	<b>\$ 13,770</b>	<b>\$ 8,549</b>	<b>\$ 538,629</b>
<b>Status of Budgetary Resources:</b>						
<b>Obligations Incurred:</b>						
Direct	\$ 398,467	\$ 69,982	\$ 35,217	\$ 13,715	\$ 8,180	\$ 525,561
Reimbursable	0	0	3,925	0	26	3,951
Exempt from Apportionment	6,039	2,148	0	0	0	8,187
Subtotal	404,506	72,130	39,142	13,715	8,206	537,699
<b>Unobligated Balances</b>						
Apportioned	0	0	465	20	224	709
<b>Unobligated Balances - Not Available</b>	0	0	67	35	119	221
<b>Total Status of Budgetary Resources</b>	<b>\$ 404,506</b>	<b>\$ 72,130</b>	<b>\$ 39,674</b>	<b>\$ 13,770</b>	<b>\$ 8,549</b>	<b>\$ 538,629</b>
<b>Relationship of Obligations to Outlays:</b>						
<b>Obligated Balances - Beginning of the Period</b>	\$ 38,141	\$ 17,458	\$ 1,053	\$ 42	\$ (395)	\$ 56,299
<b>Obligated Balance - End of the Period</b>						
Accounts Receivable	0	0	(86)	0	(1,734)	(1,820)
Unfilled Customer Orders	0	0	0	0	(1)	(1)
Undelivered Orders	0	4	41	0	1,105	1,150
Accounts Payable	39,949	17,602	999	35	154	58,739
<b>Outlays:</b>						
Disbursements	402,698	71,982	38,981	13,719	8,076	535,456
Collections	0	0	(3,836)	(4)	(7,969)	(11,809)
Subtotal	402,698	71,982	35,145	13,715	107	523,647
<b>Less: Offsetting Receipts</b>	12,368	990	256	1,984	28	15,626
<b>Net Outlays</b>	<b>\$ 390,330</b>	<b>\$ 70,992</b>	<b>\$ 34,889</b>	<b>\$ 11,731</b>	<b>\$ 79</b>	<b>\$ 508,021</b>

Required Supplementary Information: Intragovernmental Amounts  
as of September 30, 2003

(Dollars in Millions)				
	Fund Balance with Treasury	Investments	Interest Receivable, Net	Accounts Receivable, Net
<b>Intragovernmental Assets</b>				
Department of the Air Force				\$163
Department of the Army				214
Department of Health and Human Services				248
Department of the Navy				244
Department of the Treasury	\$2,310	\$1,484,219	\$20,933	
Other				3
<b>Total Intragovernmental Assets</b>	<b>\$2,310</b>	<b>\$1,484,219</b>	<b>\$20,933</b>	<b>\$872</b>
<b>Intragovernmental Liabilities</b>				
	Accrued Railroad Retirement Interchange	Accounts Payable	Other Liabilities	
Department of the Treasury, General Fund		\$6,410		
Railroad Retirement Board	\$3,767			
Other			\$110	
<b>Total Intragovernmental Liabilities</b>	<b>\$3,767</b>	<b>\$6,410</b>	<b>\$110</b>	
<b>Intragovernmental Revenues:</b>				
	Non-Exchange Revenue Transfers-In	Transfers-Out		
Department of the Treasury	(\$3)			
Department of the Treasury, General Fund	(4)	\$13,276		
Railroad Retirement Board		3,802		
Department of Health and Human Services	(1,236)			
<b>Total Intragovernmental Revenues:</b>	<b>(\$1,243)</b>	<b>\$17,078</b>		