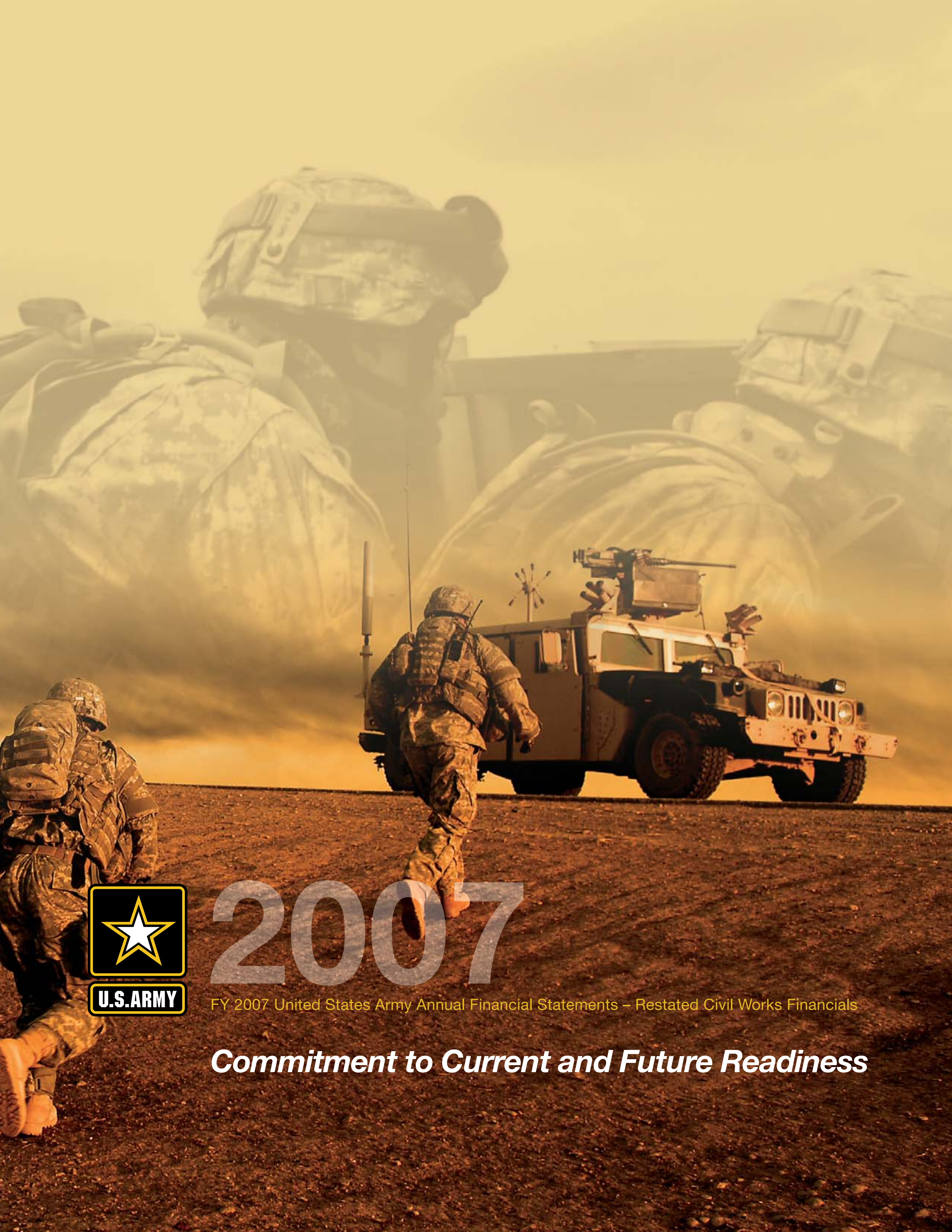


U.S.ARMY

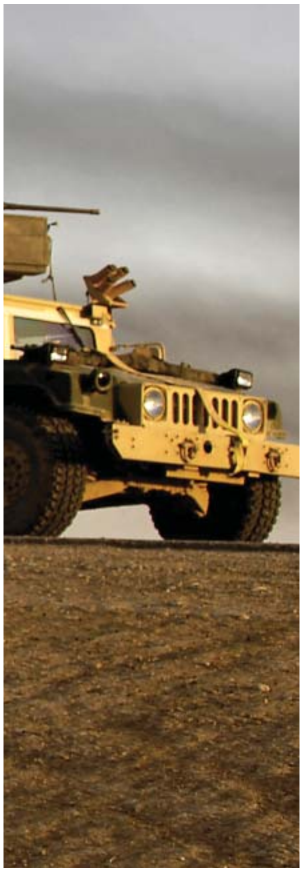
2007

FY 2007 United States Army Annual Financial Statements – Restated Civil Works Financials

Commitment to Current and Future Readiness

About the Cover

Bottom Image: Soldiers from the 3rd Brigade Combat Team, 25th Infantry Division. The smoke is from a controlled IED detonation.
Top Image: Soldiers from the 58th Brigade Combat Team practice room-clearing procedures during training.



Contents

The CD-ROM attached to the back cover contains the full Fiscal Year 2007 United States Army Annual Financial Statement, including:

As originally published:

- November 2007 FY 2007 United States Army Annual Financial Statement
  - November 2007 Message from the Secretary of the Army
  - November 2007 Message from the Assistant Secretary of the Army (Financial Management & Comptroller)
  - November 2007 Message from the Assistant Secretary of the Army (Civil Works)
  - Management's Discussion and Analysis
    - Overview
    - Mission, Vision and Organization of the Army
    - Performance Goals, Objectives and Results
    - Analysis of Financial Statements and Stewardship Information
    - Possible Future Effects of Existing Conditions
  - General Fund FY 2007 Principal Financial Statements, Notes and Supplementary Information
    - Auditor's Report on Army General Fund (Disclaimed Opinion)
  - Army Working Capital Fund FY 2007 Principal Financial Statements Notes and Supplementary Information
    - Auditor's Report on Army Working Capital Fund (Disclaimed Opinion)

Revised March 31, 2008 Civil Works section, as contained in this printed publication:

- Civil Works Management's Discussion and Analysis
- Civil Works Principal Financial Statements and Notes (Restated)
- Auditor's Report on the Civil Works Fund (Qualified Opinion)

On March 31, 2008, the Department of Defense Office of Inspector General issued a qualified audit opinion on the United States Army Corps of Engineers (USACE) Civil Works annual financial statements for fiscal years (FY) 2007 and 2006. This represents a significant accomplishment and milestone for USACE and the overall Army. In terms of General Property, Plant and Equipment, the Civil Works Fund is perhaps the largest federal entity yet to achieve a favorable audit opinion, with a net book value exceeding $26 billion. Achieving a qualified audit opinion was a formidable challenge which required persistence and determination from the Corps' financial management community over many years.

This publication contains the restated and audited USACE financial statements and notes and the auditor's report. It replaces the original FY 2007 USACE financial statements submitted to the Office of Management and Budget on November 13, 2007.

An Introduction to Financial Statements

The Army, along with most other federal entities, publishes financial statements as required by laws in existence since the early 1990s. The United States (U.S.) Congress recognizes the need to display, in a public forum, stewardship and accountability over taxpayer funds and drive more transparency into the financial management function. Another aspect of the legislation was to improve the quality and availability of financial data in order to evaluate the efficiency and effectiveness of programs as measured against specific performance measures and goals. Financial statements should provide complete, consistent, reliable and timely information that can be used for decision making.

A key measure of the quality information on the financial statements is the independent auditor's opinion. The auditor may express one of the four following opinions:

1) Unqualified opinion – the financial statement is free from significant misstatement and complies with accounting standards;
2) Qualified opinion – the financial statement contains exceptions that are not considered material enough to affect the fairness of the statements;
3) Adverse opinion – the financial statement contains exceptions considered too serious or pervasive to justify a qualified opinion; or
4) Disclaimer of opinion – the auditor is unable to obtain sufficient information upon which to base an opinion.

The Army General Fund and Army Working Capital Fund receive a disclaimer of opinion due to substantial weaknesses that must, to a large extent, be remedied by modernized financial management systems. Achieving an audit opinion has been, and will continue to be, a complex undertaking. While an unqualified opinion is certainly the end-goal, the improvements needed to achieve an unqualified opinion will yield exponential benefits. The changes required to achieve an opinion are vast, and impact all aspects of the Army's business, including changes and improvements to organizations (who), functions (what), processes (how), systems (where) and policies (why).

Accountability to taxpayers is only one of the reasons the Army must demand quality financial information; supporting Army leadership and decision makers is equally important. Army leaders need quality information with which to operate efficiently and effectively. Accountability and performance are directly linked, and the key to accountability is quality information—particularly quality financial information.

The Army publishes three sets of financial statements – one each for the Army General Fund, Army Working Capital Fund, and the Civil Works Fund.

The Army General Fund finances military operations and supporting services, personnel, facilities, procurement, research and development, and nearly every other function required to keep the Army operating. It is the largest Army fund with a majority of its revenue coming from congressional appropriations.

The Army Working Capital Fund (AWCF) is a revolving fund, which operates much like a business, deriving income from, and incurring costs for, operations without fiscal year limitation. A working capital fund is a financial management structure used to promote total cost visibility and full cost recovery of support services rendered to the Army's operating forces.

The AWCF consists of two primary activities – Industrial Operations and Supply Management. Industrial Operations provides the Army with an organic industrial capability to repair, overhaul, modify and upgrade weapon systems and component parts, and produce armaments and munitions. Supply Management provides the Army with inventory and acquisition management of spare and repair parts in support of equipment sustainment, operational readiness and combat capability.

The Civil Works mission is to contribute to the national welfare and serve the public by providing the nation and the Army with quality, responsive development and management of the environment; disaster response and recovery; and engineering and technical services. The mission is accomplished in an environmentally sustainable, economic and technically sound manner through partnerships with other governmental agencies and nongovernmental organizations.

There are four principal financial statements for each fund – the Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, and the Statement of Budgetary Resources.

The Balance Sheet provides a point-in-time snapshot of an entity's assets and liabilities. The purpose of the Statement of Net Cost is to display the total costs and associated revenues associated with Army programs and organizations. Since the Army is currently unable to separately identify programs or organizations due to system limitations, the Statement of Net Costs is presented at a summary level. The Statement of Changes in Net Position presents the manner in which the Army's net costs were financed, while the Statement of Budgetary Resources displays funding available to the Army and the status of those funds.

Please refer to the attached CD-ROM for the full set of financial statements, the accompanying notes, and the independent auditor reports for the Army General Fund, Army Working Capital Fund and the Civil Works Fund.

U.S.ARMY

Commitment to Current and Future Readiness

April 2008

Message from the Assistant Secretary of the Army (Civil Works)

I am very pleased to have worked with the Army Corps of Engineers since first coming to this office in August 2003. Over the intervening years, the Corps has served the Nation well in developing and restoring its water and related resources.

The Corps is most often recognized by the infrastructure it builds, such as navigation locks, flood control dams, hydroelectric power plants and recreation facilities, to name a few. What is not evident by these physical structures is the hard work that is done in the financial management arena to ensure that the Corps is accountable for the cost of the projects that it constructs. The Corps is a large and diverse organization, with over 24,000 people working on Civil Works projects spread over eight regional divisions and 38 district offices. Managing the financial statements in a consistent manner is no small task, and I am extremely proud that the Corps was able to achieve a qualified audit opinion for its FY 2006 and 2007 Civil Works financial statements.

The opinion is a very important milestone of the Chief Financial Officers Act and the President's Management Agenda, marking the first time that a major component of the Defense Department has received an audit opinion of any kind — qualified or not. I cannot say enough about the outstanding members of the Corps' accounting team who have worked long and hard toward this tremendous achievement. It truly has been a pleasure to work with such dedicated stewards of the taxpayers' money.

John Paul Woodley, Jr.

Assistant Secretary of the Army (Civil Works)

Commitment to Current and Future Readiness

April 2008

Message from the USACE Chief Financial Officer

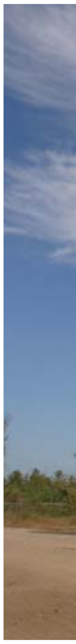
This is the 17th consecutive year that the U.S. Army Corps of Engineers (USACE) has prepared financial statements under the Chief Financial Officers (CFO) Act of 1990. This report summarizes our performance in delivering the mission of USACE and demonstrates our financial integrity through accounting statements. However, this year is different. The Department of Defense (DoD) Inspector General has issued a "qualified opinion" on USACE Civil Works fiscal years 2007 and 2006 financial statements.

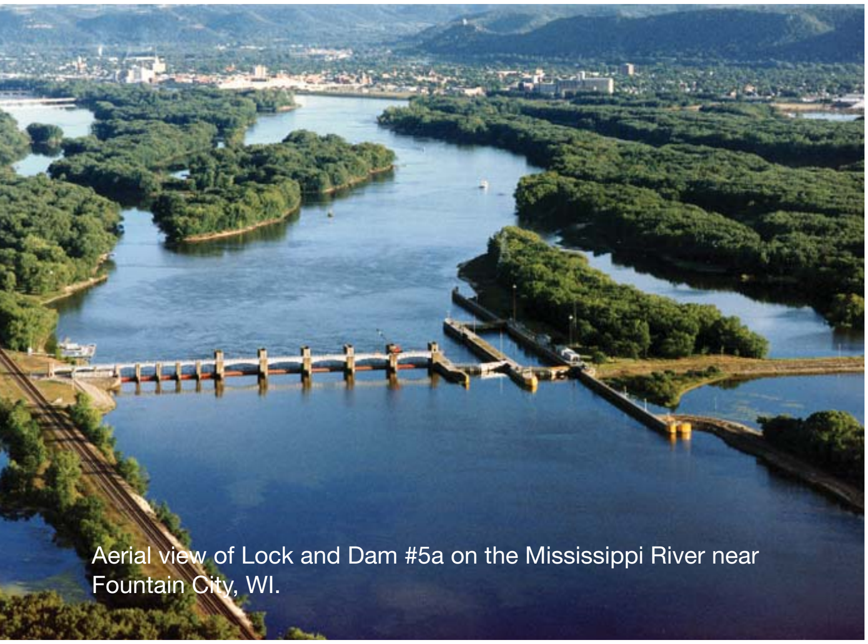
I am proud to announce that, with over $40 billion in total assets, USACE is the first major DoD activity to receive a favorable audit opinion. Funding USACE's current and future programs is serious business and has never been more important than during this period of transformation. The decisions that our leaders make as they allocate funds that will contribute to the primary Army civil works missions in the areas of safety, security, and economy of our great Nation, must be based upon relevant and reliable information. Providing such information is central to the mission of USACE financial managers.

While this is good and validates that USACE is the DoD leader in financial management, it is time to move on to great. In fiscal year 2008, we intend to improve upon the quality of the data we offer our leaders and stakeholders, so that they can make superior business decisions. We look forward to the audit of fiscal year 2008 USACE financial statements, while we are engaged in addressing outstanding audit issues. These improvement actions will help us progress toward CFO Act compliance and move us closer to a "clean" opinion.

Wesley C. Miller
Chief Financial Officer

Commitment to Current and Future Readiness




Aerial view of Lock and Dam #5a on the Mississippi River near Fountain City, WI.


Corps employee ensures quantity of debris prior to its placement in disposal site.

Mission

The civil works mission of the United States Army Corps of Engineers (USACE) is to contribute to the national welfare and serve the public by providing the nation and the Army with quality, responsive development and management of the nation's water resources; protection, restoration and management of the environment; disaster response and recovery; and engineering and technical services. The mission will be accomplished in an environmentally sustainable, economic and technically sound manner through partnerships with other governmental agencies and nongovernmental organizations.

Developing and Managing Water Resources

The original role of the USACE in civil works, as it related to developing and managing water resources, was to support navigation by maintaining and improving water channels. Over the years and through subsequent legislation, the Corps' role was expanded to include reducing flood damage, generating hydroelectric power, creating recreation opportunities and providing water storage.

Protecting, Restoring and Managing the Environment

The Rivers and Harbors Act of 1899 required the Corps to prevent the obstruction of navigable waterways. As concern over the environment grew in the late 20th century, the Clean Water Act of 1972 greatly broadened the scope of the Corps' responsibility by providing authority over the dredging and filling in of U.S. waters, including the country's wetlands. The civil works program's environmental responsibilities have continued to grow through additional legislation.

Responding and Assisting in Disaster Relief

Throughout the Corps' history, the United States has relied on the civil works program for help in times of national disaster. This help is now provided under two basic authorities: the Flood Control and Coastal Emergency Act (Public Law (PL) 84-99, as amended), and the Robert T. Stafford Disaster and Emergency Assistance Act (PL 93-288, as amended). The primary role of the civil works program in emergency relief and recovery operations is to provide public works and engineering support.

A Lake Michigan harbor entrance.

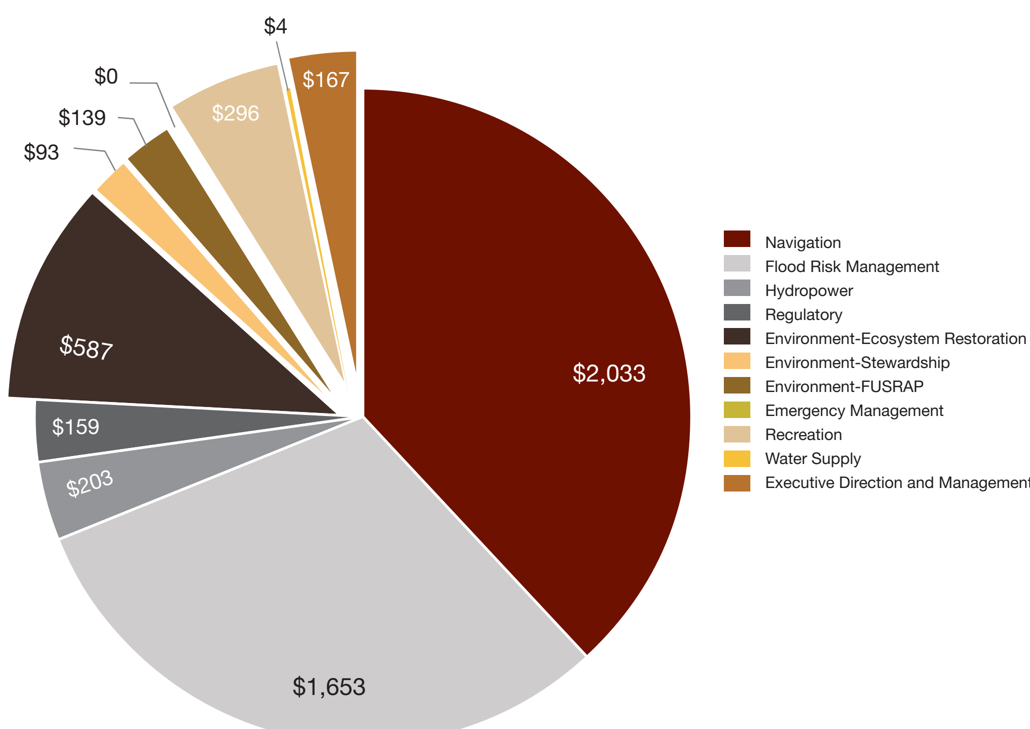
Providing Engineering Support and Technical Services

In Titles 10 and 33 of the United States Code (USC), Congress expresses its intent that the Corps provide services on a reimbursable basis to other federal entities; state, local and tribal governments; private firms; and international organizations. Additional authority to provide services to all federal agencies are found in Titles 15, 22 and 31 of the USC. This authority includes providing services to foreign governments.

Civil Works Programs

The Corps has multiple programs to accomplish its mission. Each program specifically addresses a single mission component, but each may also contribute to one or more of the other programs' missions. Figure 1 lists the programs that receive direct appropriations; furthermore, it shows the funds used for executive direction and management for those programs.

Figure 1. FY 2007 Civil Works Initial Appropriation by Business Line ($ in Millions)



Navigation

The navigation program is responsible for providing safe, reliable, efficient and environmentally sustainable waterborne transportation systems for the movement of commercial goods and for national security needs. The program seeks to meet this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The navigation program is vital to the nation's economic prosperity: 95 percent of America's overseas international trade moves through its ports. Our nation's marine transportation system (MTS) encompasses a network of navigable channels, waterways and infrastructure maintained by the Corps, as well as publicly and privately owned vessels, marine terminals, inter-modal connections, shipyards and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways; over 900 coastal, Great Lakes and inland harbors; and channel projects that are maintained by the Corps.

In FY 2007, this $2.03 billion program accounted for over 38 percent of civil works appropriations.

Flood Risk Management

The Flood Risk Management Program, formerly known as the Flood and Coastal Storm Damage Program, is aimed at saving lives and reducing property damage in the event of floods and coastal storms. The civil works program has constructed 8,500 miles of levees and dikes, 383 reservoirs and more than 90 storm damage reduction projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of the reservoirs, most of the infrastructure constructed under this program is owned and operated by the sponsoring cities, towns and agricultural levee districts.

Over the years, the Corps' mission of addressing the causes and impacts of flooding has evolved from flood control to flood prevention and, more recently, to flood damage reduction. These changes reflect a greater appreciation of the complexity and dynamics of flood problems – the interaction of natural forces, human development and change through time – and the partnerships necessary to be adaptable and sustain effectiveness through time.

Risk management is defined as the process of identifying, evaluating, selecting, implementing and monitoring actions taken to mitigate levels of risk. The goal of risk management is scientifically sound, cost-effective, integrated actions that reduce risks while taking into account social, cultural, ethical, political and legal considerations. The Corps' approach to flood risk management includes partners and stakeholders, including the Federal Emergency Management Agency, the Department of Housing and Urban Development, the National Oceanic and Atmospheric Administration, several states, sponsors and affected citizens to collaborate effectively and efficiently to make the nation more aware of flood risk.

The Flood Risk Management Program compiled an impressive record of performance, yielding a six-to-one return on investment. That is, the program saves six dollars for each dollar spent. The program also has helped reduce the number of lives lost annually by providing timely flood warnings that provide time for evacuation.

In FY 2007, this $1.65 billion program accounted for almost 31 percent of civil works appropriations.

Ecosystem Restoration, Environmental Stewardship and Remedial Actions

The Corps has three distinct programs that are focused on the environment: aquatic ecosystem restoration, stewardship of Corps lands and the Formerly Utilized Sites Remedial Action Program (FUSRAP). The Army's mission in the area of aquatic ecosystem restoration is to help restore aquatic habitat to a less degraded and more natural condition in ecosystems whose structures, functions and dynamic processes have deteriorated. The emphasis is on restoration of nationally or regionally significant habitat where the solution primarily involves manipulating the hydrology and geomorphology. Responding to the growing national awareness of the importance of the natural environment, these programs address many issues, such as monitoring water quality at dam sites; managing the natural resources on 11.5 million acres of land and water at 456 multipurpose Corps project sites; restoring degraded aquatic habitats to more natural conditions; and clean up of hazardous material.


Vic Fazio Yolo Wildlife Area. Yolo County, CA.

In FY 2007, the Corps' total environmental appropriation was comprised of $587 million for ecosystem restoration; $93 million for environmental stewardship; and $139 million for remedial actions, which are approximately 11.0, 1.7 and 2.6 percent, respectively, of the Corps' total appropriations.

Regulation of Wetlands and Waterways

In accordance with the Rivers and Harbors Act of 1899 (Sec. 10) and the Clean Water Act of 1972 (Sec. 404), as amended, the Army Civil Works Regulatory Program regulates the discharge of dredged and fill material into U.S. waters, including wetlands. The Corps implements many of its oversight responsibilities by means of a permit process. Throughout the permit evaluation process, the Corps must comply with the National Environmental Policy Act and other applicable environmental and historic preservation laws. In addition to federal statutes, the Corps must also consider the views of other federal, tribal, state and local governments and agencies; interest groups; and the general public when rendering its final permit decisions.

In FY 2007, this $159 million program accounted for almost 3 percent of civil works appropriations.

Emergency Management

Throughout Corps' history, the United States has relied on the civil works program for help in times of national disaster. Emergency management continues to be an important part of the civil works program. The civil works program supports the Department of Homeland Security in carrying out the National Response Plan. The Corps' primary role in support of this plan is to provide emergency support in areas of public works and engineering. The Corps responds to more than 30 presidential disaster declarations in a typical year, and its highly trained workforce is prepared to deal with both man-made and natural disasters.

Hurricanes Katrina, Rita, Wilma and Ophelia caused significant damage to the flood and hurricane protection projects along the Gulf Coast and South Atlantic states. Hurricane Katrina, alone, caused extensive damage to the hurricane shore protection and flood control projects in the states of Louisiana, Mississippi and Alabama, totaling over $2.1 billion. Major damage to the storm protection system in the New Orleans area included breaches of significant sections of levees and floodwalls along Lake Pontchartrain and vicinity, as well as the New Orleans-to-Venice projects that required extensive repairs prior to the beginning of the 2006 hurricane season.

In addition to its repair efforts, the Corps began studying ways to improve hurricane protection in the vicinity of Lake Pontchartrain. The Corps' senior leadership commissioned the Hurricane Protection Decision Chronology (HPDC) shortly after Hurricane Katrina struck the Gulf Coast of the United States on August 29, 2005. The Corps' Institute for Water Resources (IWR) was asked to convene an external HPDC team to collect, record and analyze project memoranda, reports and related documentation in order to describe and explain decision-making for the Lake Pontchartrain & Vicinity Hurricane Protection Project (LP&VHPP). The requested report was to provide an explanation, as opposed to an evaluation, of how the Corps' policies and organization, legislation, financial and other factors influenced the decisions that led to the LP&VHPP protective structures in place when Hurricane Katrina struck the Gulf Coast.

The HPDC focus on project decision-making is intended to complement the engineering forensics investigations on the performance of the LP&VHPP during Hurricane Katrina, such as those conducted by the Interagency Performance Evaluation Task Force and other institutions. The intent of the HPDC is to make predictions about the future by looking at historical data. It is the record of the LP&VHPP's complex history of relationships, actions and decisions over 50 years that led to the system as it existed when Hurricane Katrina struck. The HPDC points to the fact that no single individual, agency, organization or decision was solely responsible for the LP&VHPP's development over that 50-year history. The Corps is committed to open, transparent communication with the American public about what has been learned in the aftermath of Hurricane Katrina.

The Corps not only makes contributions to domestic emergency management efforts, but it also plays a major role on the international stage through its participation in the Civil Military Emergency Preparedness Program. In support of the DoD, the Corps shares emergency management knowledge and expertise with U.S. allies and partners in the former Soviet Republics and Eastern Europe. This valuable program brings together key leaders and builds relationships among nations in direct support of the National Defense Strategy.

In FY 2007, this program received no funding in the initial appropriations.

Hydropower

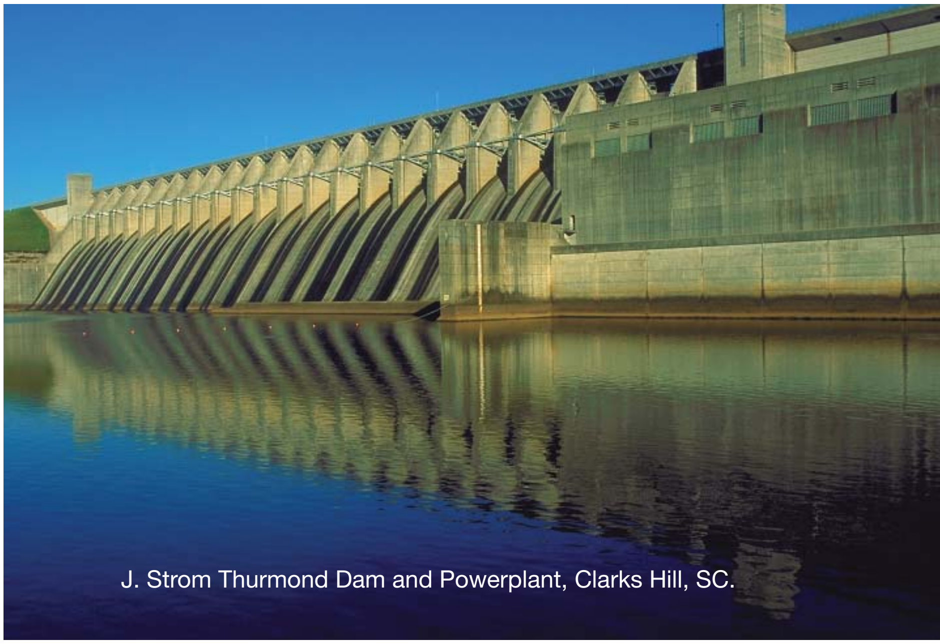
The Corps' multipurpose authorities provide hydroelectric power as an additional benefit of projects built for navigation and flood control. The Corps is the largest owner/operator of hydroelectric power plants in the United States and one of the largest in the world. The Corps operates 345 generating units at 75 multipurpose reservoirs, mostly in the Pacific Northwest, which account for about 24 percent of America's hydroelectric power and about three percent of the country's total electric-generating capacity. Its hydroelectric plants produce nearly 100 billion kilowatt-hours each year, sufficient to serve about 10 million households—equal to ten cities the size of Seattle, Washington. Hydropower is a renewable source of energy and one of the least environmentally disruptive sources of electric power, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect.

In FY 2007, this $203 million program accounted for almost four percent of civil works appropriations.

Water Supply

Conscientious management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The Corps has an important role in ensuring that homes, businesses and farms nationwide have enough water to meet their needs. The Corps has the authority for water supply as part of projects that serve navigation, flood protection and hydroelectric purposes.

In FY 2007, this $4 million program accounted for less than 1 percent of civil works appropriations.


J. Strom Thurmond Dam and Powerplant, Clarks Hill, SC.

Fishing in the tail race of Hartwell Dam on the Savannah River.

Recreation

The Corps is an important provider of outdoor recreation as an ancillary benefit of flood prevention and navigation projects. The mission of the recreation program is to provide quality outdoor public recreation experiences to serve the needs of present and future generations, and to contribute to the quality of American life while managing and conserving natural resources consistent with ecosystem management principles.

The Corps administers 4,485 recreation sites at 423 projects on 12 million acres of land. During FY 2006, 10 percent of the U.S. population visited a Corps project at least once. These visitors spent $15 billion pursuing their favorite outdoor recreation activities, supporting some 500,000 full- and part-time jobs. This $296 million program accounted for over five percent of the civil works budget in FY 2007.

Organizational Structure

The Workforce

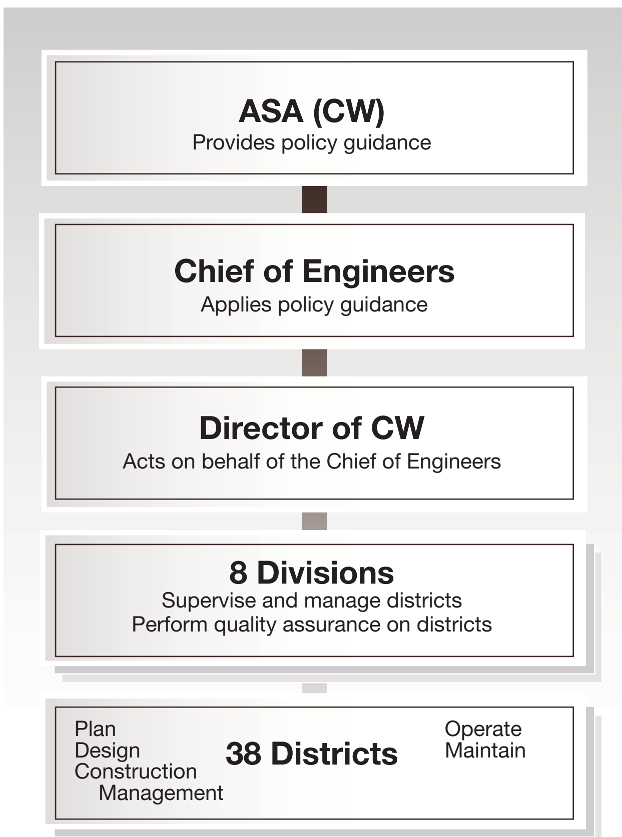
The Corps employs approximately 35,000 people, including 650 military officers and 24,800 civilians, who perform civil works duties. It is funded through the energy and water development appropriation and executes programs through eight regional divisions and 38 of the 41 districts of the Corps of Engineers — the remaining three districts have only military-related missions. There is a ninth provisional division in the Gulf Region, which supports operations in Iraq and Afghanistan; the division includes four embedded provisional districts.

Figure 2 shows the division boundaries. These are defined by watersheds and drainage basins, reflecting the water resources nature of the civil works mission.

The distribution of civil works employees similarly highlights the customer focus of the program: 95 percent of employees work at the district level, labs or field operating agencies, reflecting the fact that project management is performed at the district level. The civil works program contracts out to civilian companies all of its construction and most of its design work. As many as 150,000 people are indirectly employed in support of civil works projects. These contractual arrangements have served the nation well in times of emergency.

Figure 2. Civil Works Boundaries

Figure 3. Civil Works Levels of Authority



The Leadership

Oversight of civil works is provided through four levels of authority. As shown in Figure 3, the Assistant Secretary of the Army for Civil Works (ASA(CW)) is appointed by the President and is responsible for civil works policy. The Chief of Engineers is a military officer who reports to the ASA(CW) and is responsible for mission accomplishment; however, he delegates most of his responsibilities for managing the various programs to the Director of Civil Works. The Chief of Engineers, through the Director of Civil Works, is responsible for the leadership and management of the civil works program and for ensuring that policies established by the ASA(CW) are applied to all phases of the civil works mission. The divisions, commanded by division engineers, are regional offices responsible for the supervision and management of their subordinate districts, including the monitoring and quality assurance of district work. The districts are the foundation of the civil works mission, managing water resource development over a project's life cycle.

Civil Works Fund Performance Results

Civil works directly impact America's prosperity, competitiveness, quality of life and environmental stability. In March 2004 the civil works leaders published a strategic plan that provides a framework for enhancing the sustainability of America's resources. The strategic goals listed in the plan support the strategic direction of the Corps over the five-year period, FY 2004 – FY 2009. Key performance measures developed in conjunction with the Office of Management and Budget, through the Performance Assessment Rating Tool process for FY 2002 – FY 2006, are presented below.

Goal 1: Provide Sustainable Development and Integrated Management of the Nation's Water Resources.

Navigation

Objective: To invest in navigation infrastructure that is fully capable of supporting maritime requirements in environmentally sustainable ways, where economically justified.

Performance Indicator: Track navigation lock and channel availability by identifying trends in scheduled and unscheduled lock closures for the navigation system, measured in hours.

Performance Result: The Corps uses the same indicators as in Goal 3; please see Table 4 for the results.

Flood Risk Management

Objective: To invest in flood and coastal storm damage reduction solutions when benefits exceed costs.

Performance Indicator: This is measured by the performance of civil works facilities in reducing damage and risk to threatened population areas, where flooding otherwise would have been experienced.

Performance Result: The Corps uses the same indicators as in Goal 3; please see Table 6 for the results.

Hydropower

Objective: To invest in hydropower solutions when benefits exceed costs.

Performance Indicators: The availability of hydroelectric generating units, their generating capacity and forced outage rates are indicators of success in meeting this objective.

Performance Result: The Corps uses the same indicators as in Goal 3; please see Table 8.

Goal 2: Repair Past Environmental Degradation and Prevent Future Environmental Losses

Aquatic Ecosystem Restoration

Objective: Restore degraded, significant ecosystems, structure, function and process to a more natural condition by investing in restoration projects or features that make a positive contribution to the nation's environmental resources in a cost-effective manner.

Funding History: The first row of Table 1 shows the funding for aquatic ecosystem restoration.

Performance Indicators: Four indicators were recently established to assess progress in meeting this objective. The Corps began collecting performance data for these indicators during fiscal years 2005 and 2006, which serve as baseline.

- **Number of acres of habitat restored, created, improved or protected.** The number of acres of habitat restored is an appropriate measure for documenting progress toward restoration of degraded ecosystems.
- **Number of nationally significant acres of habitat restored, created, improved or protected.** This measure will document the subset of acres of habitat restored, each year, that have high-quality outputs as compared to national needs.
- **Dollars per acre to restore, create, improve or protect nationally significant habitat.** The cost of the projects that produce nationally significant acres, in any given year, will be used to calculate this figure. In the long run, through efficiencies in project execution or other considerations, the goal would be to restore more acres per dollar expended.
- **Percentage of all acres of habitat restored, created, improved or protected that are nationally significant**. Restoration of acreage that meets the criteria for national significance is expected to have the greatest impact on the restoration of the nation's ecosystems. The goal is to increase the percentage of nationally significant acres over time.

Performance Results

The number of aquatic ecosystem restoration projects completed in any one year is relatively small. There was considerable variation between the 20 projects that were completed and the 18 that served as the basis for the estimated FY 2007 performance. The result was an increase of 467,949 total acres restored and 475 additional, nationally significant acres. The key project that resulted in the substantial increase in acreage completion was Lake Okeechobee, an element of the Everglades South Florida Restoration Program. The average cost per acre of the nationally significant acres was close to the estimate despite the change in the mix of projects that were completed

Table 1. Aquatic Ecosystem Restoration Indicators

				FY 2007	
	FY 2004	FY 2005	FY 2006	Target	Actual
Funding history in millions of dollars	$413	$408	$516	$587	$340
Acres of habitat restored, created, improved or protected	Note 1	32,573	6,600	3,734	471,683
Nationally significant acres of habitat restored, created, improved or protected	Note 2		5,500	3,259	2,987
Cost per acre to restore, create, improve or protect nationally significant habitat			$9,800	$6,957	$6,800
Percent of all restored, created, improved or protected acres of habitat that are nationally significant			83%	87%	0.60%

Note 1: This measure was added at the end of FY 2004; FY 2005 is the first year of complete data.

Note 2: Performance measures were developed in FY 2006; it is the first year of reporting.

Regulatory

Objective: To administer the Regulatory Program in a manner that protects the aquatic environment (ensures zero net-loss of wetlands).

Funding History: The first row of Table 2 shows the funding for the Regulatory Program.

Performance Indicators: Table 2 also lists eight measures that serve as indicators to assist Corps personnel in determining their progress in meeting this objective.

- **Individual permit compliance.** The Corps shall complete compliance inspections on the annual target percentage of all individual permits issued and constructed within the preceding fiscal year.

- **General permit compliance.** The Corps shall complete compliance inspections on the annual target percentage of all general permits with reporting requirements issued and constructed within the preceding fiscal year.
- **Mitigation site compliance.** The Corps shall complete field compliance inspections on the annual target percentage of active mitigation sites each fiscal year. Active mitigation sites are those sites authorized through the permit process. They are monitored as part of the permit process, but have not met final approval under the permit special conditions.
- **Mitigation inspections or audits.** The Corps shall complete compliance inspections or audits on the annual target percentage of active mitigation banks, and in lieu of fee programs, annually.
- **Resolution of noncompliance issues.** The Corps will reach resolution on non-compliance with permit conditions or mitigation requirements on the annual target percentage of activities determined to be non-compliant at the end of the previous fiscal year, and determined to be non-compliant during the current fiscal year.
- **Resolution of enforcement actions.** The Corps shall reach resolution on the annual target percentage of all pending enforcement actions (i.e., unauthorized activities) that are unresolved at the end of the previous fiscal year and that have been received during the current fiscal year.
- **General permit decisions.** The Corps shall reach permit decisions on the annual target percentage of all general permit applications within 60 days.
- **Individual permits.** The Corps shall reach permit decisions on the annual target percentage of all standard permits and letters of permission within 120 days. This standard shall not include individual permits with Formal Endangered Species Act consultations.

Performance Results

The Regulatory Program continues to be scrutinized as development pressures mount and national public awareness of the aquatic environment, including wetlands, continues to rise. Court decisions at the local, state, regional and national level require adjustments to the program implementation. Specifically, the Supreme Court decision in the Carabell/Rapanos[1] case and associated Corps-EPA joint guidance require additional scrutiny and documentation of most of our jurisdictional decisions. Sensitivity to wetlands has resulted in greater direct input from the public and environmental interest groups, leading to greater complexity and controversy in the review of permit proposals. As the complexities grow, the delays in making permit decisions increase. The program continues to be challenged to make timely permit decisions (most on private property) with the proper environmental review and documentation.

The Corps has begun several initiatives to speed the permit decision process and improve environmental review and documentation. The first initiative is a Lean Six Sigma analysis of the individual permit process, focusing on streamlining and reducing waste. Implementation of the Six Sigma recommendations from this process will reduce processing times and lead to a more consistent process. Revised procedures will be promulgated nationwide through re-issuance of our regulatory standard operating procedures by December 2007. The second major initiative is to complete, no later than December 2007, the final installation of a nationwide spatial database to track all Corps permits. This database will enable interagency data sharing with permit applicants, interested local governments, several states, Native American tribes and other federal agencies. The database will also facilitate comprehensive environmental analysis for permits, including cumulative impact analyses. These two initiatives directly support the Corps' efforts to expedite permit review while improving environmental analysis and documentation.

[1] *Rapanos v. United States and Carabell v. Army Corps of Engineers 126 S. Ct. 2208 (2006).*

Table 2. Regulatory Indicators

	FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Funding history in millions of dollars	$139	$143	$158	$159	$159
Percent of compliance inspections on individual permits	16%	14%	41%	10%	11%
Percent of compliance inspections on general permits	5%	5%	7%	5%	7%
Percent of active mitigation sites inspected	11%	9%	10%	5%	7%
Percent of compliance inspections on active mitigation banks	20%	19%	26%	20%	63%
Percent resolution on noncompliance with permit conditions or mitigation requirements	26%	24%	37%	20%	56%
Percent resolution on pending enforcement actions	37%	23%	60%	20%	82%
Percent of general permit application decisions made within 60 days	85%	85%	82%	75%	78%
Percent of standard permits and letter of permission permit decisions made within 120 days	61%	61%	61%	50%	53%

Environmental Remediation (Formerly Utilized Sites Remedial Action Program-FUSRAP)

Objective: To achieve the cleanup objectives of the FUSRAP. The Corps uses three outcome measures to indicate progress in meeting this objective: Minimize risk to human health and to the environment; maximize the cubic yardage of contaminated material disposed in a safe and legal disposal facility; and return the maximum number of affected individual properties to beneficial use.

Funding History: The first row of Table 3 shows the funding for environmental remediation.

Performance Indicators: The measures listed in Table 3 serve as indicators to help Corps personnel determine their progress in meeting this objective. In addition to the indicators explained below, the Corps has begun to measure the cumulative percentage of FUSRAP funding that is expended on actual cleanup as well as activities and the total cost of disposing of contaminated material.

- **Number of records of decision (ROD) signed.** As studies are completed and best alternatives for cleanup activities are decided, the number of RODs will increase. A final ROD establishes the final cleanup standard, which controls the actual estimate of the remaining environmental liability for each site.
- **Number of remedial investigations (RI) completed.** The RI establishes the baseline risk assessment whereby the level of risk to human health and the environment is identified.
- **Number of action memorandums signed.** Where warranted by risk or other limited factors, action memorandums allow the Corps to move toward reducing risk more rapidly than through production of a ROD. No action memorandums are presently identified.
- **Cubic yardage of contaminated material disposed.** Target soil amounts are dependent on previous-year funding and scheduled activities.
- **Individual properties returned to beneficial use.** Number of properties that have been released for general use following remediation.
- **Number of remedies in place or response complete.** As select portions of sites or complete sites meet their remedial action goals, the risk to human health and the environment is reduced to within acceptable levels, and properties are able to be used within a community without fear of increasing cancer risk or further degrading the environment.
- **Remediation of contaminated material.** The cost to dispose of contaminated material as measured in cubic yards. This measure is scheduled to be evaluated at the end of FY 2009.
- **Percentage of funding expended on cleanup.** Measures the cumulative percentage of FUSRAP funding that is expended on cleanup activities rather than studies.

Performance Results

The FUSRAP met or exceeded five of the six FY 2007 performance indicators. The exception was the metric measuring the number of RODs signed. The Corps was unable to complete the review process for the Luckey Groundwater ROD; however, the document is scheduled to be completed in early FY 2008.

The Corps remediated 207,374 cubic yards of contaminated material, which far exceeded its FY 2007 target. The Corps was able to exceed this measure because the program received $8 million above the President's budget amount for the year. The Corps used the additional funds in part to remediate the two soil operable units at the Colonie site, resulting in completion of this remediation work two years ahead of schedule. Remediation was also completed at the St. Louis Airport site. The scheduled remediation at the Painesville site was completed; however, the Corps discovered significant contaminated soil volumes in excess of the known material. This newly discovered material will be remediated during the first quarter of FY 2008.

Table 3. Remedial Action Indicators

				FY 2007	
	FY 2004	FY 2005	FY 2006	Target	Actual
Funding history in millions of dollars	$139	$164	$139	$139	$136
Number of RODs signed	9	3	2	3	2
Remedial investigations completed	21	5	4	1	1
Action memos signed	3	0	1	0	0
Contaminated material removed (in thousand cubic yards)	2,927.0	243.0	225.0	147.0	185.6
Individual properties returned to beneficial use	65	5	15	13	21
Remedies in place or response complete	4	2	0	2	3
Remediation of contaminated material	Note 1				
Percentage of funding expended on cleanup	Note 1				

Note 1: Data on this measure will not be available until the end of FY 2009.

Goal 3: Ensure that Projects Perform to Meet Authorized Purposes and Evolving Conditions

Navigation

Objective: Improve the efficiency and effectiveness of existing Corps water resource projects by maintaining justified levels of service availability to commercial traffic of high-use infrastructure (e.g., waterways, harbors, channels).

Objective: Address the operations and maintenance (O&M) backlog on all operating projects by funding high-priority operations and maintenance projects.

Funding History: The first row of Table 4 shows the funding for the operation and maintenance of the Navigation Program. Table 5 shows the funding for the Major Rehabilitation and Construction Program.

Performance Indicators: To assist the Corps in measuring its progress in meeting the Goal 3 objectives, the Corps uses performance indicators that relate to the operation and maintenance activities for inland waterways and coastal ports and harbors, as well as the efficiency of the overall, combined navigation system. The indicators are described below and their measures are shown in Tables 4 and 5.

Operation and maintenance of the inland waterways

- **Ton-miles.** The sum total of movement of cargo on the waterways; this measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the inland waterway.
- **Navigation lock availability.** This is the unscheduled closure of the lock system due to mechanical failures. Closures due to weather or other uncontrollable causes are not included in this metric.
- **Assets with structural risk assessments.** The percent of the navigation inland waterway asset inventory with recent structural risk assessments.
- **Assets with operational risk assessments.** The percent of the navigation inland waterway asset inventory with recent operational risk assessments.

Operation and maintenance of the coastal ports and harbors

- **Tons of cargo.** Total sum of cargo in tons moved in and out of the coastal ports and harbors system. This measure is an indicator of utilization of the system; data are collected for the purpose of trend analysis. There is no specific target generated by the Corps.
- **Channel availability, high-use projects.** The percent of time per year the half channel width is available over the project's authorized length. There are a total of 59 high-use projects defined as those that pass 10 million or more tons of cargo per year.
- **Channel availability, moderate-use projects.** The percent of time per year the half channel width is available over a project's authorized length. A moderate-use project is defined as one that passes 1 to 10 million tons of cargo per year.
- **Assets with operational risk assessments.** The percent of the navigation port and harbor assets in the inventory that have had a recent operational risk assessment.

Efficiency of the navigation system

- **Cost per ton.** The measure assesses the efficiency of the commercial navigation system, which combines inland waterways and coastal ports and harbors. This is a roll-up of the efficiency of all navigation projects where the cost of operation and maintenance, per ton of cargo shipped through a port or inland waterway system, is known and tracked at a particular location.

Major rehabilitation and construction of the navigation system

- **High-return investments.** The percent of funding to rehabilitate, construct or expand projects that is allocated to high-return investments. High-return investment projects are defined as those projects with a benefit-to-cost ratio of 3.0 or greater.

Performance Results

The program presents significant challenges in its efforts to maintain the reliability of the inland waterway navigation system. The system's aging infrastructure requires more repairs than the Corps can accomplish, given the historical level of program appropriations. These same funding shortfalls, coupled with an increased cost of dredging operations, are affecting the Corps' ability to properly maintain channels. The increase in dredging costs in recent years corresponds to the near doubling in the cost of fuel purchases. Although other factors may limit or control channel availability, maintaining an acceptable width and depth through dredging operations has by far the greatest impact.

Table 4. Navigation Program, Operation and Maintenance Activities Performance Indicators

		FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Inland waterways	Funding history in millions of dollars	$1,198	$1,209	$1,211	$1,320	$1,274 Note 1
	Ton-miles (in billions of ton-miles by calendar year)	256	246	250	Note 2	Note 3
	Lock unscheduled closures, mechanical (in thousands of hours)	13	27	22	Note 4	23 Note 1
	Assets with structural risk assessments	Note 5				
	Assets with operational risk assessments	Note 5				
Coastal ports and harbors	Tons of cargo (in billions of tons)	1.908	1.935	1.921	Note 2	Note 3
	Channel availability, high-use projects	Note 6	38%	35%	Note 7	32% Note 1
	Channel availability, moderate-use projects	Note 5				
	Assets with operational risk assessments	Note 5				
Efficiency	Cost per ton	$0.48	$0.47	$0.47	Note 2	Note 3

Note 1: Estimate based on data available mid-September.

Note 2: Ton-miles, tons of cargo, and cost per ton are collected for trend analysis; the Corps does not target or make projections of data measuring utilization of the navigation system.

Note 3: FY 2007 actual data were not available at the time of the report.

Note 4: Measure was revised in FY 2007 to account for only mechanical breakdowns of locking systems. Since the measure was revised, a target was not developed for FY 2007. Data provided for FY 2004 through 2006 were actual results extracted from existing records.

Note 5: New measure for FY 2008, which will be the first year data are collected.

Note 6: First year program measure was tracked was FY 2005.

Note 7: This is a new measure for FY 2007; therefore, no FY 2007 target was set. Data provided for FY 2005 and FY 2006 were actual results extracted from existing records.

Table 5. Navigation Program Major Rehabilitation and Construction Indicators

	FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Funding history in millions of dollars	Note 1	$621	$916	$703	$635 Note 2
High-return investments	Note 3				

Note 1: First year program measure was tracked in FY 2005.

Note 2: FY 2007 funding is an estimate based on data available mid-September

Note 3: New measure for FY 2008, which will be the first year data are collected.

Flood Risk Management

Objective: To reduce the nation's risk of damages due to flooding and coastal storms.

Funding History: The first row of Table 6 shows the funding for flood and coastal storm damage reduction.

Performance Indicators: Additional indicators were recently established that will assist Corps' personnel in determining progress in meeting this objective. The Corps began collecting performance data relating to these indicators during the current year, and sufficient data are not yet available to establish baselines.

- **Flood damage prevented.** Measures the estimated annual dollars of property damage avoided through the existence of Corps' flood control projects completed during the fiscal year.

- **Increase in benefits realized.** This is the total percent increase in the present value of total benefits realized from construction work completed in the applicable fiscal year.

- **Ten-year moving average.** The 10-year moving average of actual flood damage reduction benefits attributable to completed projects.

- **Additional people protected.** The percent increase in total affected population with reduced risk at project design attributed to completion of projects in the applicable fiscal year.

- **Operating projects in zones 21-25.** The percentage of operating projects (e.g., dams, levees, channels, flood gates) that are in zones 21-25 of the relative risk ranking matrix.

- **Operating projects in zones 1-6.** The percentage of operating projects (e.g., dams, levees, channels, flood gates) that are in zones 1-6 of the relative risk ranking matrix.

- **Dam safety projects.** The percentage of the dams in the screening portfolio risk assessment (SPRA) that fall in Dam Safety Action Class (DSAC) I, II or III.

- **Relative loss of life.** The total relative annualized loss of life per dam.

- **DSAC I, II and III projects.** The number of DSAC I, II and III projects underway or completed during the applicable year.

- **SPRA assessments completed.** The number of SPRA screening level assessments completed in the applicable year.

- **Marginal cost of operations.** The marginal cost of operations and maintenance for all operating projects (e.g., dams, levees, channels, flood gates) relative to damages prevented.

Performance Results

There were eight flood risk management projects scheduled for completion in FY 2007. Five of the eight projects achieved 100 percent completion; one project realized a 100-year level of protection and will complete a 250-year level of protection in FY 2008; and two projects completed phases that allowed for only partial benefits to be realized, which is why the full FY 2007 target was not achieved.

Table 6. Flood Damage Prevented

	FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Funding history in millions of dollars	$1,214	$1,193	$1,512	$1,610	$1,774
Additional people protected (in thousands of people)	22	24	121	160	142
Flood damage prevented (in millions of dollars)	Note 1		$56.1	$56.8	$55.6
Ten-year moving average (in millions of dollars)	$21,700	$21,400	$9,200	Note 2	
Increase in benefits realized	Note 3				
Operating projects in zones 21-25					
Operating projects in zones 1-6					
Dam safety projects					
Relative loss of life					
DSAC I, II and III projects					
SPRA assessments completed					
Marginal cost of operations					

Note 1: This measure was effective at the beginning of FY 2006.

Note 2: Data are collected from actual floods occurring throughout the year, and data become available in March following the year of interest. The Corps makes no predictions or targets year to year; data are used for trend analysis only.

Note 3: New measure for FY 2008, which will be the first year data are collected.

Environmental Stewardship

Objective: To improve the efficiency and effectiveness of existing Corps water resources projects.

Objective: To ensure healthy and sustainable lands and waters, and associated natural resources, on Corps lands in public trust to support multiple purposes.

Objective: To protect, preserve and restore significant ecological resources in accordance with master plans.

Objective: To ensure that the operation of all civil works facilities and management of associated lands, including out-granted lands, complies with the environmental requirements of the relevant federal, state and local laws and regulations.

Objective: To meet the mitigation requirements of authorizing legislation or applicable Corps authorization decision document.

Funding History: The first row of Table 7 shows the funding for environmental stewardship.

Performance Indicators: To measure success in attaining the objectives shown above, the Corps has developed seven performance indicators. Data on these indicators may be found in Table 7.

- **Mitigation compliance.** This measure demonstrates the Corps' performance in meeting mitigation requirements that are specified in project authorizations. The measure is a percentage of the number of designated Corps-administered mitigation lands (acres) meeting mitigation requirements divided by the total number of designated Corps-administered mitigation lands, or the number of pounds of (or number of individual) fish produced in a mitigation hatchery, divided by the number of fish to be produced at a mitigation hatchery to meet the mitigation requirement.
- **Endangered species protection.** The percent of Corps operating projects with Endangered Species Act (ESA) requirements for which the Corps is meeting ESA requirements or responsibilities.

- **Cultural resources management.** The percent of Corps operating projects meeting federally mandated cultural resource management responsibilities.
- **Healthy and sustainable lands and waters.** This measure is defined as the number of Corps fee-owned acres classified as in a sustainable condition divided by the total number of Corps fee-owned acres. The result provides an indicator of the condition status of all Corps fee-owned acres. Sustainable is defined as meeting the desired state. The acreage is not significantly impacted by any factors that can be managed and does not require intensive management to maintain its health. The acreage also meets operational goals and objectives set forth in applicable management documents.
- **Level-one natural resources inventory completion index.** This measure demonstrates the status of Corps efforts in completing basic, level-one natural resource inventories required by USACE Environmental Regulation (ER) 1130-2-540, Environmental Stewardship Operations and Maintenance Policies. Such inventories are necessary for sound resource management decisions and strategies development. The measure is defined as the sum total number of acres of completed inventory for each of the four components of the minimum, level-one natural resources inventory, divided by four times the total number of Corps fee-owned acres. The proportion (percentage) yielded is used to evaluate the relative completeness of the inventory.
- **Master plan completion.** A master plan is completed, per regulation, to foster an efficient and cost-effective project for natural resources, cultural resources and recreational management programs. This measure demonstrates Corps commitment to fully integrate environmental stewardship in the management of operating projects. The measure is expressed as a percentage and is derived by dividing the number of required master plans completed in compliance with regulation by the total number of required master plans.
- **Efficiency.** This is represented by program costs recovered in cents on a dollar. The outcome for this objective is to manage projects in an efficient manner. This measure is an assessment of federal costs avoided in relation to the program cost. Revenue recovered each year, equivalent to the federal costs avoided, will vary due to the nature and extent of the sustainability practices implemented. The program emphasis, however, is on resource sustainability as opposed to revenue generation.

Performance Results

Program funding has decreased in recent years; combined with the effects of inflation, this has reduced the capability to meet overall target performance objectives. Additionally, shifts in program priorities contributed to the results obtained for specific measures. The Corps continued to place emphasis on program elements required by statute and regulation, such as mitigation, endangered species and cultural resource management initiatives.

Increased emphasis on mitigation compliance resulted in performance gains that exceeded the FY 2007 target for this measure. Two other mandated initiatives, endangered species protection and cultural resource management, do not have historical data that allow for proper year-to-year comparisons. Baseline data for cultural resources management was gathered in FY 2007. The endangered species protection measure was added as a performance indicator in FY 2007, and baseline data will be collected in FY 2008.

The emphasis on mandated initiatives and the decreased funding trend resulted in reduced levels of management and maintenance of land conditions in FY 2007, which is reflected in a decrease in the amount of healthy and sustainable acreage. The funding shortfall contributed to the lack of a significant increase in the number of natural resource inventories completed, and no increase in the completion of master plans. Level-one natural resource inventories and master plans support responsible land management; without significant improvement in the number of inventories and plans completed, the program outcome of healthy and sustainable lands is at risk.

Table 7. Environmental Stewardship Indicators

	FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Funding history in millions of dollars	$151	$146	$124	$93	$113
Mitigation compliance	Note 1	76%	61%	61%	86%
Endangered species protection		Note 2			
Cultural resource management		Note 3		72%	63%
Healthy and sustainable acreage		37%	21%	19%	18%
Level one natural resources inventory completed		33%	38%	38%	40%
Master plans completed		32%	27%	27%	27%
Efficiency (in cents on the dollar)		$0.09	$0.10	$0.01	$0.12

Note 1: FY 2005 was the first year of performance measurement of the program.

Note 2: This measure becomes effective in FY 2008.

Note 3: This measure was added at the end of FY 2006; FY 2007 is the first year of complete data.

Hydropower

Objective: To improve the efficiency and effectiveness of existing Corps water resource projects.

Funding History: The first row of Table 8 shows the past three years of capital improvements and operation and maintenance expenditures for the Hydropower Program.

Performance Indicator: The objective of the Hydropower Program is to maintain a high level of reliability and peak availability of hydroelectric power-generating capability at multipurpose reservoir projects. The performance indicators listed below are used by the Corps to measure progress toward attaining this objective. Performance indicator results and targets for the year are shown in Table 23.

- **Percent of time available during periods of peak demand.** The amount of time hydroelectric generating units are available to the Power Marketing Administration's interconnected system during daily peak demand periods.
- **Percent of forced outages.** The percent of time generating units are in an unscheduled or unplanned outage status. The lower the forced outage rate, the more reliable and less expensive the electrical power provided to the customer.

Performance Results

Table 8 shows the significant decrease in appropriations for the program in FY 2007; program performance was affected accordingly. The percent of time hydropower generating units were actually available to produce power declined in FY 2007. During the same period, there was a decline in the percent of time units were available during peak power demand periods. The margin between these two performance indicators has decreased steadily over the same period. As the margin narrows, system maintenance and operating costs increase. The industry standards for availability and peak availability are 98 and 95 percent, respectively. The Hydropower Program's standard metric used for forced outages is 2.0 percent. The table below shows program performance for availability and peak availability to be 14 and 11 percentage points below the industry standard, respectively. The program's forced outage performance is 2.6 percentage points above the standard and 1.2 percentage points above the FY 2007 target.

Table 8. Hydropower Indicators

	FY 2004	FY 2005	FY 2006	FY 2007 Target	FY 2007 Actual
Funding history in millions of dollars	$245	$285	$288	$202	$228
Percent of time units are available	85.57%	84.54%	86.95%	91%	84.35%
Percent of time available during periods of peak demand	87.48%	87.24%	88.69%	89%	84.26%
Percent of time units are out of service due to unplanned outage	4%	4.66%	3.73%	3.5%	4.67%
Generating capacity rated in poor condition	Note 1				
Hydropower plant reviews					
Operating and maintenance costs for power					
Electric reliability standards met					

Note 1: This measure was added at the end of FY 2007; FY 2008 will be the first year to report data.

Recreation

Objective: To provide justified outdoor recreation opportunities in an effective and efficient manner at all Corps-operated water resources projects.

Objective: To provide continued outdoor recreation opportunities to meet the needs of present and future generations.

Objective: To provide a safe and healthful outdoor recreation environment for the Corps' customers.

Funding History: The first row of Table 9 shows the funding for the Recreation Program.

Performance Indicators: The measures listed in Table 9 serve as indicators to assist Corps personnel to determine their progress in meeting the Corps' recreation efficiency, service and availability objectives. The indicators are explained below.

- **Total NED Benefits.** NED benefits are estimated using the unit day value method, which was originally developed by the Water Resources Council.[2]
- **Benefit-to-cost ratio.** This is the ratio of NED benefits to actual program expenditures or budget.
- **Cost recovery.** Measures the percent of total recreation receipts to the recreation budget.
- **Park Capacity.** Measure of the capacity of facilities to provide recreation opportunities, expressed in millions of days/nights that the Corps' recreation units were available for use.
- **Number of visitors.** Total number of visitors to Corps-managed parks, expressed in millions of people.
- **Visitor health and safety services.** This measure is expressed as a percentage of visitors to Corps managed recreation areas who reported acceptable service.
- **Customer satisfaction.** This is measured as a percentage of visitors reporting satisfaction with their visit to a Corps recreation area.
- **Facility Service.** This measure is the percentage of visitors served at a Corps-managed recreation area with a facility condition score of 4 or better, which indicates their experience was fair to good.
- **Facility condition.** This is the average condition of facilities at Corps-managed recreation areas. The score is based on a seven-point scale where 1 = poor and 7 = excellent.

[2]NED benefits arising from recreation experiences are measured in terms of willingness to pay for each increment of supply or type of recreation opportunity. The unit day value method relies on expert or informed opinion and judgment to approximate the average willingness to pay of users of federal or federally assisted recreation resources. The unit day value is estimated at the park (recreation area) level by evaluating each park against a set of published criteria. By applying a carefully thought-out and adjusted unit day value to estimated use, an approximation is obtained that may be used as an estimate of project recreation benefit (i.e., NED benefits = Unit Day Value X Recreation Use in Visitor Days).

Performance Results

Funding for the program decreased in both real and inflation-adjusted terms from FY 2006 to FY 2007. As a result, most performance measures declined or, at best, remained the same. There was an increase in the number of visits to Corps recreation areas in FY 2007 despite the fact that reduced funding resulted in a decrease in the measure of facility service. This measure for FY 2007 was 50 percent; while acceptable, it is well below the Corps' standard of 75 percent.

In an attempt to mitigate the results of reduced funding, the Corps continues a strategy comprised of a combination of continued reduced-service levels and a reduction of recreation opportunities caused by the partial or complete closing of parks. With demand increasing, the Corps is faced with having to resort to reductions in contract services and daily operating hours, and to shorten recreation seasons. A recent survey of operations project managers disclosed the expectation of 76 partial closures and 11 full closures program-wide in the next fiscal year.

Table 9. Recreation Indicators

				FY 2007	
	FY 2004	FY 2005	FY 2006	Target	Actual
Funding history in millions of dollars	$262	$270	$268	$296	$256
Total NED benefits (in millions of dollars)	$1,223	$1,243	$1,216	$1,247	$1,288
Benefit-to-cost ratio	4.28	4.3	4.27	4.27	4.3
Cost recovery	16%	16%	16%	16%	Note 4
Park capacity (in millions of days)	74	74	74	74	74
Number of visitors (in millions of visits)	135	142	144	144	145
Visitor health and safety services – visitor centers	Note 1	79%	78%	79%	77%
Visitor health and safety services – recreation areas		51%	50%	51%	50%
Customer satisfaction	Note 2	88%	87%	88%	Note 5
Facility service	Note 3	48%	48%	48%	47%
Facility condition	3.7	3.7	3.7	3.7	Note 4

Note 1: Service standards were revised in FY 2005, so FY 2004 data are not comparable.

Note 2: Surveys were not collected in FY 2004.

Note 3: Measure was established at the end of FY 2004; FY 2005 is first year of complete data.

Note 4: Data to compute the cost recovery ratio and facility condition index were not available at the time of printing.

Note 5: The data for FY 2007 were not available at the time of printing.

Water Supply

Objective: To provide water supply storage in a cost-efficient and environmentally responsible manner, in partnership with nonfederal water management plans, that is consistent with law and policy.

Funding History: The first row of Table 10 shows the funding for the Water Supply Program.

Performance Indicator: To assist in measuring progress toward this objective, the Corps uses measures relating to the acre-feet of water stored and cost recovery measures. These are shown in Table 10.

- **Acre-feet available.** Of the total acre-feet of water stored in a reservoir, this number represents the total acre-feet made available for the purpose of water supply.
- **Acre-feet under contract.** Of the acre-feet made available for water supply, this number represents the total number of acre-feet under contract with local interests.

- **Percentage under contract.** The percentage of the acre-feet of water supply storage space under contract compared to the acre-feet of space available for water storage.
- **Costs available for recovery.** The Corps seeks proportional reimbursement of capital cost for that portion of the reservoir that has been allocated for water supply. Cost available for recovery is the total estimated capital cost of water supply allocations.
- **Costs recovered.** Costs assigned to the water supply storage space that have been, or are in the process of, being recovered through repayment agreements.
- **Percent of costs recovered.** The percentage of costs available for recovery compared to costs recovered.

Performance Results

The funds received for FY 2007 were for billings and collections associated with water supply agreements and the operations and maintenance associated with specific water supply facilities. The funding also helped to resolve water problems in areas affected by drought and increased population pressure. As funding has remained constant, the percentage of acre feet under contract and percent of costs recovered have also remained relatively constant. Records indicate that for every dollar spent on billings and collections, some $15 to $20 is collected in principal, interest and operation and maintenance expense monies owed by the local sponsors. These funds are deposited in the U.S. Treasury.

Table 10. Acre-Feed of Water Supply

				FY 2007	
	FY 2004	FY 2005	FY 2006	Target	Actual
Funding history in millions of dollars	$2	$2	$2	$4	$2.5
Acre-feet available (in millions of acre-feet)	9.856	9.761	9.936	10	Note 1
Acre-feet under contract (in millions of acre-feet)	9.108	9.356	9.936	9.6	
Percent under contract	92.4%	95.9%	94.5%	96%	
Costs available for recovery (in millions of dollars)	$1,477.2	$1,459.8	$1,492.9	$1,500.0	
Costs recovered (in millions of dollars)	$1,064.0	$1,096.1	$1,117.9	$1,131.0	
Percent recovered	72%	75%	74.9%	75.4%	

Note 1: Due to a change in the data collection process, FY 2007 actual data were not available at time of printing. Data will be available on 30 November 2007.

Goal 4: Reduce Vulnerabilities and Losses to the Nation and the Army from Natural and Man-Made Disasters, Including Terrorism

The purpose of this goal is to manage the risks associated with all types of hazards and to increase the responsiveness to disasters of the Civil Works Emergency Management Program within the Corps' Office of Homeland Security in support of federal, state and local emergency management efforts. Disaster preparedness and response capabilities are not limited to water-related disasters, but draw on the engineering skills and management capabilities of the Corps in reacting to a broad range of natural disasters and national emergencies. Emergency readiness contributes to national security.

Objective: To attain and maintain a high, consistent state of preparedness.
Objective: To provide a rapid, effective and efficient all-hazards response.
Objective: To ensure effective and efficient long-term recovery operations.

Funding History: The first row of Table 11 shows the funding for emergency preparedness and response and recovery operations.

Performance Indicators: The four primary measures listed in Table 11 are designed to serve as indicators to assist Corps personnel in determining their progress in meeting the Corps' emergency management objectives. The indicators are explained on the following page.

- **Planning response team readiness.** The Corps has established designated planning and response teams (PRT) that are organized to provide rapid emergency response for a specific mission area. This measure is calculated as a percentage of time during the fiscal year that PRTs are fully staffed, trained and ready to deploy.
- **Project inspection performance.** The Corps performs inspections of flood control works operated and maintained by public sponsors to ensure and assess their operations and maintenance condition. This measure is determined by the percentage of scheduled inspections completed during the fiscal year.
- **Damaged project restoration.** The Corps repairs flood control projects damaged by flood or storm under authority of Public Law 84-99. This measure is determined by the percentage of projects damaged during a fiscal year that are repaired prior to the next flood season.
- **Project condition ratings.** Under the Corps Rehabilitation and Inspection Program, inspected projects are given condition ratings that characterize the project maintenance condition. This measure is determined by the percentage of the total projects inspected during the fiscal year that received a rating of at least minimally acceptable.

Performance Results

The Corps maintained 41 national planning and response teams at a 76 percent fully manned, trained and equipped readiness rate during FY 2007. These teams are trained and prepared to deploy to a disaster area and provide assistance for temporary power, temporary housing, debris management, water and ice commodities, temporary roofing and infrastructure assessment. The readiness rating was below the target rating due to an increase in the number of teams and improvements in team structures that required additional training and manning. During FY 2007, the Corps conducted 74 percent (420 total) of the scheduled project inspections of nonfederal flood damage reduction projects. Performance below the target objective resulted from the application of more technically rigorous inspections in FY 2007, which limited the number of scheduled inspections that could be conducted. Of the total projects inspected during FY 2007, 92 percent received project condition ratings of minimally acceptable or better. Major floods in the northwest and central United States resulted in damages to 128 flood damage reduction projects. As of this report, repairs to 34 projects have been completed, resulting in a 27 percent performance rating for completing project repairs prior to the next flood season. Repairs for all the remaining damaged projects have been funded, and construction will be completed by spring 2008.

Table 11. Emergency Preparedness Indicators

				FY 2007	
	FY 2004	FY 2005 Note 1	FY 2006 Note 1	Target Note 2	Actual Note 1
Funding history in millions of dollars	$51	$348	$5,408	$58	$1,561
Planning response team readiness	93%	82%	92%	90%	76%
Project inspection performance	90%	96%	93%	92%	74%
Damaged project restoration	92%	75%	65%	88%	27%
Project condition ratings	93%	94%	95%	90%	92%

Note 1: Funding was provided in supplemental appropriations to repair projects damaged by coastal storm and flooding.

Note 2: The funding target for FY 2007 was to fund preparedness activities.

Possible Future Effects of Existing Conditions

Flood Risk Management

The goal of the program is to reduce the nation's risk of damages due to flooding and coastal storms. The nation faces increasing flood hazards, putting existing developments at risk. This is compounded by the fact that new development is occurring in flood-prone areas, often behind aging flood-control structures that include some levees designed to provide agricultural rather than urban protection. National flood damages, which averaged $3.9 million annually in the 1980s, nearly doubled in the decade 1995 through 2004. Total disaster assistance for both emergency response operations and subsequent long-term recovery efforts increased from an average of $444 million during the 1980s to $3.75 billion during the 1995 – 2004 decade.

Significant investments in identifying, evaluating and maintaining existing flood infrastructure (e.g., levees, dams, beaches) are required. This includes accounting for the change in the frequency, magnitude and location of storms, as well as changes in land use. The Corps is responsible for maintaining some of this infrastructure, while other entities are responsible for the remaining infrastructure. Regardless of ownership, all elements of the infrastructure must function as a system to be effective. In addition to maintaining infrastructure, new flood-risk management measures must be studied, evaluated and implemented in a timely fashion.

The Marine Transportation System (MTS)

The MTS system is comprised of 1,000 harbor channels; 25,000 miles of inland, intracoastal and coastal waterways; and 240 lock chambers. The national goal for the MTS is to provide a safe, secure and globally integrated network that, in harmony with the environment, ensures a reliable movement of people and commerce along its waterways, sea lanes and inter-modal connections. Today, approximately 20 percent of the gross domestic product of the United States is generated by foreign trade, and approximately 95 percent of that trade is moved by water. The value of the foreign tonnage is over $900 billion and generates 16 million jobs. Current forecasts predict that maritime trade will double, or possibly triple, in the next 20 years.

Inland Waterways: Eleven of the inland waterway locks are over 100 years old, and 122 are over 50 years old. In recent years, maintenance deferrals and delays in rehabilitation and replacement of aging locks have driven up unscheduled closure time from 12,000 hours per year in FY 2001 to 22,000 hours per year in FY 2006. These closures have a negative effect on the economy by imposing costs on shippers, carriers and electric utilities. For example, an unscheduled 52-day closure at Greenup Locks and Dams in Ohio cost shippers and carriers over $53 million. New improvements to inland waterways are jeopardized by the low balance in the Inland Waterways Trust Fund because half of the cost of such improvements must come from this fund.

Coastal Channels and Harbors: Existing channels and high-volume harbors were only available 35 percent of the time in FY 2006. Inadequate channels affect the economy by imposing costs on vessel operators that are reflected in the cost of imports and the price of U.S. exports. Failure to maintain a foot of channel depth increases container shipping costs by about 6 percent on average. Postponing investment in deeper and wider channels to address the needs of future demands will result in additional economic costs.

Environment: Aquatic Ecosystem Restoration

The Aquatic Ecosystem Restoration sub-program's goal is to restore to a less degraded, more natural condition, aquatic habitat whose structure, function and dynamic processes have deteriorated. The Corps designs and constructs projects that modify, in a cost-effective manner, hydrologic and geomorphic characteristics to achieve its objectives.

The demand for aquatic ecosystem restoration is great, and the challenge is to arrive at a sustainable balance between the often conflicting demands for the use and control of water resources. In FY 2007, the Corps initiated a research and development effort to develop environmental benefit assessments that will more objectively evaluate aquatic ecosystem restoration projects to enable it to effectively build and evaluate a national program. Until a standard metric is developed, the Corps will continue to work with other agencies and continue to invest in research and development in order to more objectively evaluate the disparate ecosystem restoration projects and to prioritize restoration needs. The Corps continues to try to fund a balanced program that addresses the variety of resources needed across the country.

Analysis of Financial Statements and Stewardship Information

Civil Works Balance Sheet

The Army Civil Works Fund balance sheet includes total assets that exceed $44 billion, which is an approximate 2.1 percent increase over FY 2006. Two asset categories – Fund Balance with Treasury and General Property, Plant and Equipment – make up almost 85 percent of total assets, with values of $11.2 billion and $26.7 billion, respectively.

Fund Balance with Treasury increased $3 billion (37 percent). The increase was primarily in the Flood Control and Coastal Emergencies appropriation, which is used for hurricane and disaster relief work. The increase in this appropriation is due to a combination of a U.S. Treasury warrant for $1.6 billion and total receipts collected of $2.6 billion. The $2.6 billion included collection of delinquent accounts receivable from the Federal Emergency Management Agency (FEMA). Disbursements of $1.8 billion were made throughout FY 2007 for work performed on disaster relief efforts. The collections and disbursements are for disaster relief efforts related to Hurricanes Katrina, Wilma and Rita by the USACE's New Orleans, Vicksburg and Galveston Districts. The Treasury warrant and collections combined with disbursements resulted in an increase in the fund balance of $2.4 billion.

Liabilities are approximately $4.4 billion, comprised primarily of other amounts due to treasury, other liabilities, accounts payable, and environmental liabilities, which represent approximately 94 percent of the total.

Figure 4. Select Civil Works Fund Assets and Liabilities
Civil Works Fund
$ in billions

Asset Type	2007 Consolidated (Restated)	2006 Consolidated (Restated)	Change	Percentage of FY 2007 Assets
General Property, Plant and Equipment	$ 26.73	$ 26.29	$ 0.45	60%
Fund Balance with Treasury	11.17	8.15	3.02	25%
Accounts Receivable	2.52	4.34	(1.82)	6%
Remaining Assets	4.16	3.69	0.47	9%
Total Assets	$ 44.58	$ 42.47	$ 2.11	100%

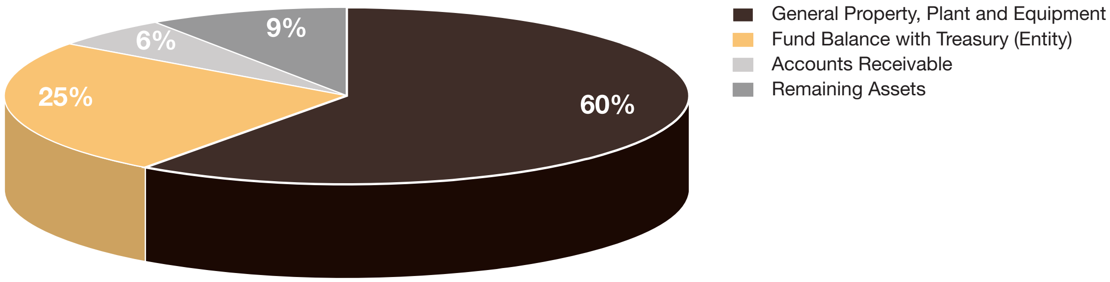
Liability Type	2007 Consolidated (Restated)	2006 Consolidated (Restated)	Change	Percentage of FY 2007 Liabilities
Due to Treasury	$ 1.47	$ 1.62	$ (0.15)	34%
Other Liabilities	0.99	0.93	0.07	23%
Accounts Payable	0.97	1.00	(0.03)	22%
Environmental Liabilities	0.66	0.66	(0.00)	15%
Remaining Liabilities	0.26	0.26	0.00	6%
Total Liabilities	$ 4.35	$ 4.47	$ (0.11)	100%

Stewardship Information

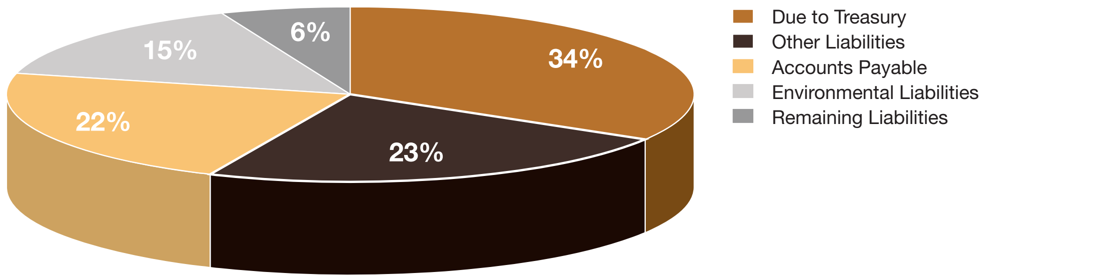
The current national register inventory for the USACE includes 489 archeological properties determined to be eligible for listing, and 97 archeological properties listed. There are 117 buildings and structures listed on the national register and 236 determined eligible for listing.

Figure 5. Select Civil Works Fund Assets and Liabilities

Civil Works Assets



Civil Works Liabilities



Civil Works Fund

Limitations

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

Department of Defense - US Army Corps of Engineers

BALANCE SHEET

As of September 30, 2007 and 2006 ($ in Thousands)

	2007 Consolidated (Restated)	2006 Consolidated (Restated)
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Notes 1.V. & 3)	$ 11,165,472	$ 8,147,353
Investments (Note 4)	4,038,353	3,571,456
Accounts Receivable (Notes I.V. & 5)	873,119	2,696,060
Total Intragovernmental Assets	$ 16,076,944	$ 14,414,869
Cash and Other Monetary Assets (Note 7)	$ 1,371	$ 1,310
Accounts Receivable, Net (Note 5)	1,644,574	1,641,432
Inventory and Related Property, Net (Note 9)	121,704	121,340
General Property, Plant and Equipment, Net (Notes 1.V. & 10)	26,734,595	26,289,495
Other Assets (Note 6)	494	0
TOTAL ASSETS	$ 44,579,682	$ 42,468,446
Stewardship PP&E (Note 8)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Notes 1.V. & 12)	$ 128,411	$ 133,029
Debt (Note 13)	12,917	13,924
Due to Treasury (Note 15)	1,468,894	1,621,941
Other Liabilities (Notes 15 & 16)	405,629	233,290
Total Intragovernmental Liabilities	$ 2,015,851	$ 2,002,184
Accounts Payable - Public (Note 12)	$ 839,715	$ 862,035
Federal Employee and Veterans' Benefits (Note 17)	251,887	250,575
Environmental and Disposal Liabilities (Note 14)	656,123	657,497
Other Liabilities (Notes 1.V., 15 & 16)	588,926	693,922
TOTAL LIABILITIES	$ 4,352,502	$ 4,466,213
Commitments and Contingencies (Note 16)		
NET POSITION		
Unexpended Appropriations - Other Funds (Note 1.V.)	8,336,552	7,046,853
Cumulative Results of Operations - Earmarked Funds (Note 22)	6,129,552	5,588,141
Cumulative Results of Operations - Other Funds (Note 1.V.)	25,761,076	25,367,239
TOTAL NET POSITION	$ 40,227,180	$ 38,002,233
TOTAL LIABILITIES AND NET POSITION	$ 44,579,682	$ 42,468,446

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

STATEMENT OF NET COST

For the years ended September 30, 2007 and 2006 ($ in Thousands)

	2007 Consolidated	2006 Consolidated
Program Costs	(Restated)	(Restated)
Gross Costs (Note 18)	$ 8,615,546	$ 11,694,262
(Less: Earned Revenue)	(3,052,387)	(5,253,732)
Net Program Costs	$ 5,563,159	$ 6,440,530
Net Cost of Operations	$ 5,563,159	$ 6,440,530

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

Department of Defense - US Army Corps of Engineers

STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2007 and 2006 ($ in Thousands)

	2007 Earmarked Funds	2007 All Other Funds	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS	(Restated)	(Restated)	(Restated)
Beginning Balances	$ 5,380,665	$ 25,574,715	$ 30,955,380
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	(450,381)	(450,381)
Corrections of errors (Notes 1.V. & 24)	0	0	0
Beginning balances, as adjusted	5,380,665	25,124,334	30,504,999
Budgetary Financing Sources:			
Appropriations used	0	4,540,018	4,540,018
Nonexchange revenue	1,983,572	(239)	1,983,333
Transfers-in/out without reimbursement	16,503	111,960	128,463
Other Financing Sources:			
Donations and forfeitures of property	0	11,105	11,105
Transfers-in/out without reimbursement	256,145	(232,606)	23,539
Imputed financing from costs absorbed by others	0	262,330	262,330
Total Financing Sources	2,256,220	4,692,568	6,948,788
Net Cost of Operations	1,326,284	4,607,397	5,563,159
Net Change	929,936	85,171	1,385,629
Cumulative Results of Operations	6,310,601	25,209,505	31,890,628
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 7,046,853	$ 7,046,853
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	(35,335)	(35,335)
Beginning balances, as adjusted	0	7,011,518	7,011,518
Budgetary Financing Sources:			
Appropriations received	0	5,865,443	5,865,443
Appropriations transferred-in/out	0	(334)	(334)
Other adjustments (rescissions, etc.)	0	(57)	(57)
Appropriations used	0	(4,540,018)	(4,540,018)
Total Budgetary Financing Sources	0	1,325,034	1,325,034
Unexpended Appropriations	0	8,336,552	8,336,552
Net Position	$ 6,310,601	$ 32,221,023	$ 40,227,180

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

STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2007 and 2006 ($ in Thousands)

	2006 Earmarked Funds	2006 All Other Funds	2006 Consolidated
CUMULATIVE RESULTS OF OPERATIONS	(Restated)	(Restated)	(Restated)
Beginning Balances	$ 4,781,544	$ 26,024,854	$ 30,806,398
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	0	0
Corrections of errors (Notes 1.V. & 24)	0	(740,928)	(740,928)
Beginning balances, as adjusted	4,781,544	25,283,926	30,065,470
Budgetary Financing Sources:			
Appropriations used	0	4,913,155	4,913,155
Nonexchange revenue	1,841,682	0	1,841,682
Transfers-in/out without reimbursement	8,362	284,043	292,405
Other Financing Sources:			
Donations and forfeitures of property	0	19,888	19,888
Transfers-in/out without reimbursement	(135,271)	135,457	186
Imputed financing from costs absorbed by others	0	263,124	263,124
Total Financing Sources	1,714,773	5,615,667	7,330,440
Net Cost of Operations	1,115,652	5,324,878	6,440,530
Net Change	599,121	290,789	889,910
Cumulative Results of Operations	5,380,665	25,574,715	30,955,380
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 1,005,843	$ 1,005,843
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	0	0
Beginning balances, as adjusted	0	1,005,843	1,005,843
Budgetary Financing Sources:			
Appropriations received	0	10,980,882	10,980,882
Appropriations transferred-in/out	0	27,114	27,114
Other adjustments (rescissions, etc.)	0	(53,831)	(53,831)
Appropriations used	0	(4,913,155)	(4,913,155)
Total Budgetary Financing Sources	0	6,041,010	6,041,010
Unexpended Appropriations	0	7,046,853	7,046,853
Net Position	$ 5,380,665	$ 32,621,568	$ 38,002,233

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

Department of Defense - US Army Corps of Engineers

STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2007 and 2006 ($ in Thousands)

	2007 Combined (Restated)	2006 Combined (Restated)
BUDGETARY FINANCING ACCOUNTS		
BUDGETARY RESOURCES:		
Unobligated balance, brought forward, October 1	$ 9,445,339	$ 5,003,186
Recoveries of prior year unpaid obligations	491,474	418,242
Budget authority		
Appropriation	7,503,579	12,439,718
Spending authority from offsetting collections		
Earned		
Collected	10,417,319	9,465,576
Change in receivables from Federal sources	(1,792,986)	1,979,190
Change in unfilled customer orders		
Advance received	(20,162)	(35,792)
Without advance from Federal sources	(491,895)	(1,008,037)
Subtotal	15,615,855	22,840,655
Nonexpenditure transfers, net, anticipated and actual	78,583	(8,068)
Temporarily not available pursuant to Public Law	(10,000)	(10,000)
Permanently not available	(732)	(54,490)
Total Budgetary Resources	$ 25,620,519	$ 28,189,525
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 7,281,595	$ 7,243,506
Reimbursable	8,436,698	11,500,680
Subtotal	15,718,293	18,744,186
Unobligated balance:		
Apportioned	8,954,424	8,698,433
Exempt from apportionment	937,561	746,850
Subtotal	9,891,985	9,445,283
Unobligated balance not available	10,241	56
Total status of budgetary resources	$ 25,620,519	$ 28,189,525
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	5,401,044	3,945,373
Less: Uncollected customer payments		
from Federal sources, brought forward, October 1	$ (6,421,138)	$ (5,449,985)
Total unpaid obligated balance	(1,020,094)	(1,504,612)
Obligations incurred net	$ 15,718,293	$ 18,744,185
Less: Gross outlays	(14,836,212)	(16,870,276)
Less: Recoveries of prior year unpaid obligations, actual	(491,474)	(418,242)
Change in uncollected customer payments from Federal sources	2,284,881	(971,153)
Obligated balance, net, end of period		
Unpaid obligations	5,791,649	5,401,044
Less: Uncollected customer payments from Federal sources	(4,136,258)	(6,421,138)
Total, unpaid obligated balance, net, end of period	1,655,391	(1,020,094)
Net Outlays:		
Gross outlays	14,836,212	16,870,276
Less: Offsetting collections	(10,397,157)	(9,429,787)
Less: Distributed Offsetting receipts	(521,925)	(502,276)
Net Outlays	$ 3,917,130	$ 6,938,213

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

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers Civil Works Program (USACE), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of USACE in accordance with the Department of Defense (DoD) Financial Management Regulation (FMR), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and generally accepted accounting principles (GAAP). Refer to Note 24, "Restatements". The accompanying financial statements account for all Civil Works resources for which USACE is responsible.

USACE's financial statements are prepared from the consolidation of general ledger financial data reported from the Corps of Engineers Financial Management System (CEFMS) to the Corps of Engineers Enterprise Management Information System (CEEMIS). The financial statements are presented on the accrual basis of accounting as required by the Statements of Federal Financial Accounting Standards (SFFAS).

1.B. Mission of the Reporting Entity

The primary mission of USACE includes maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies, and making waterways passable. The Civil Works Program also supports the Department of Homeland Security in carrying out the National Response Plan. USACE's primary role in support of this plan is to provide emergency support in areas of public works and engineering. USACE responds to more than 30 presidential disaster declarations in a typical year, and its highly trained workforce is prepared to deal with both man-made and natural disasters.

1.C. Appropriations and Funds

USACE Civil Works Program receives federal funding through annual Energy and Water Development Appropriations Act. Program funding also comes from nonfederal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with federal agencies.

USACE Civil Works Program receives its appropriations and funds as general, revolving, trust, special and deposit funds. USACE uses these appropriations and funds to execute its mission and subsequently report on resource usage.

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

Revolving funds received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The revolving fund resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement or statute. Certain trust and special funds may be designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. Earmarked funds also have a requirement to account for and report on the receipt, use and retention of revenues and other financing sources that distinguish them from general revenues.

Special fund accounts are used to record government receipts reserved for a specific purpose.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. USACE is acting as an agent or a custodian for funds awaiting distribution.

In 1997, USACE received borrowing authority from the U.S. Treasury for the three years 1997 through 1999 to finance capital improvements to the Washington Aqueduct.

The asset accounts used to prepare the principal financial statements are categorized as entity/nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity. A summary of the entity and nonentity accounts follows:

Entity Accounts:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96X3121	Investigations
96 3121	Investigations (fiscal year)
96X3122	Construction
96X3123	Operation and Maintenance, General
96 3123	Operation and Maintenance, General
96X3124	General Expenses
96 3124	General Expenses
96X3125	Flood Control and Coastal Emergencies
96 3125	Flood Control and Coastal Emergencies
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96 3129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X3130	Formerly Utilized Sites Remedial Action Program
96 3132	Office of Assistant Secretary of the Army, Civil Works
96X6094	Advances from the District of Columbia

Revolving Funds

96X4902	Revolving Fund

Special Funds

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris
96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5493	Fund for Non-Federal Use of Disposal Facilities
96 5493	Fund for Non-Federal Use of Disposal Facilities

Trust Funds

96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96 20X8861	Inland Waterways Trust Fund
96X8862	Rivers and Harbors Contributed and Advance Funds
96 20X8863	Harbor Maintenance Trust Fund
96 89X4045	Bonneville Power Administration Fund, Power Marketing Administration, Department of Energy

Transfer Funds (reported by the Parent)

96 12X1105	State and Private Forestry, Forest Service
96 14X1039	Construction, National Park Service
96 14X5035	Land Acquisition and State Assistance, National Park Service

96 14X5573	Permit Processing Fund, Bureau of Land Management
96 46X0200	Appalachian Regional Development Programs, Appalachian Regional Commission
96 69X8083	Federal - Aid Highways (Liquidation of Contract Authorization), Federal Highways Administration
96 89X4045	Bonneville Power Administration Fund, Power Marketing Administration, Department of Energy

Nonentity Accounts:

Deposit Funds

96X6500	Advances Without Orders from Non-Federal Sources
96X6501	Small Escrow Amounts

Clearing Accounts

96F3875	Budget Clearing Account (suspense)
96F3880	Unavailable Check Cancellations and Overpayments (suspense)
96F3885	Undistributed Intragovernmental Payments

Receipt Accounts

96 0891	Miscellaneous Fees for Regulatory and Judicial Services, Not Otherwise Classified
96 1060	Forfeitures of Unclaimed Money and Property
96 1099	Fines, Penalties, and Forfeitures, Not Otherwise Classified
96 1299	Gifts to the United States, Not Otherwise Classified
96 1435	General Fund Proprietary Interest, Not Otherwise Classified
96 3220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96 5005	Land and Water Conservation Fund
96 5007	Special Recreation Use Fees
96 5066	Hydraulic Mining in California
96 5090	Receipts from Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes
96 5125	Licenses under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams, etc., (50%)
96 5493	User Fees, Fund for Non-Federal Use of Disposal Facilities

Obsolete Accounts

96 13X1450	96 89X0224	96X6145	96F3886	96 1499
96 14X2301	96 20X8145	96X6275	96 0199	96 2413
96 19 00 1082	96X3930	96X6302	96 0869	96 2814
96 47X4542	96X6050	96X6999	96 1030	96 3102
96 67X0204	96X6075	96X8868	96 1040	96 3124
96 72 00/01 1021	96X6134	96F3879	96 1210	

1.D. Basis of Accounting

USACE's financial management system meets all of the requirements for full accrual accounting. USACE transactions are recorded on an accrual accounting basis as required by GAAP. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds, in accordance with the Treasury Financial Manual.

1.E. Revenues and Other Financing Sources

USACE receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. USACE recognizes revenue as a result of costs incurred for goods or services provided to other federal agencies and the public. Full cost pricing is USACE's standard policy for goods or services provided, as required by OMB Circular A-25, *User Charges*. USACE recognizes revenue when earned.

USACE records two types of revenue: exchange and non-exchange. Exchange revenue is the inflow of resources that USACE has earned by providing something of value to the public or another Federal entity at a price. Sources of exchange revenue are customer orders (reimbursable agreements), cost sharing revenue, long-term water storage (LTWS) agreements and other exchange revenue.

Customer Orders are contracts where USACE provides goods or services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables in CEFMS. For non-federal entities, an advance payment is required and USACE records deferred revenue for the advance received; USACE recognizes the deferred revenue as costs are incurred.

Cost Sharing Revenue arises from agreements under which USACE constructs assets, the cost of which will be borne in part by another entity (sponsor). Throughout the life of a cost share project, USACE revenue is earned based on the sponsor's proportionate share of project costs incurred. Sponsors are generally required to provide funds in an advance account. USACE withdraws the sponsor's cash account, which is an escrow account. At the time of the withdrawal for cost incurred, USACE also recognized revenue.

Long Term Water Storage (LTWS) Agreements is revenue for LTWS agreements based on the cost of construction to be recouped by USACE from the municipality. Annually, CEFMS automatically recognizes revenue on the agreement, which can be amortized from two to fifty years, depending on the contract specifications. Payments are amortized over the life of the agreement.

Non-exchange revenue represents resources received by USACE when a good or service is not provided in exchange for that revenue. Examples of types of non-exchange revenue include trust fund receipts, penalties and donations.

1.F. Recognition of Expenses

Accrual adjustments are made for environmental liabilities. USACE's expenditures for capital and other long-term assets are recognized as operating expenses as the assets are depreciated.

1.G. Accounting for Intragovernmental Activities

USACE eliminates transactions among USACE entities in their financial statements.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The *Treasury Financial Manual*, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" provide guidance for reporting and reconciling intragovernmental balances. While USACE is unable to fully reconcile intragovernmental transactions with all federal partners, USACE is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with OPM. USACE has implemented policies and procedures related to reconciling intragovernmental assets, liabilities, revenues and expenses for nonfiduciary transactions. Entities whose financial systems are unable to capture and provide complete, pertinent data limit the degree of intragovernmental reconciliation. USACE is able to fully reconcile with those entities whose financial systems have the capability to capture and provide all pertinent information needed for accurate intragovernmental reconciliation.

USACE's proportionate share of public debt and related expenses of the Federal Government is not included in its financial statements. The Federal Government does not apportion debt and its related costs to federal agencies. USACE's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

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

1.H. Funds with the U.S. Treasury

USACE's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of the USACE Finance Center (UFC), the Defense Finance and Accounting Service (DFAS) and the Department of State's financial service centers process the majority of USACE's cash collections, disbursements and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, UFC and DFAS sites submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between USACE's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled.

1.I. Foreign Currency

Cash is the total of cash resources under the control of USACE, which includes coin, paper currency, negotiable instruments and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

The majority of cash and all foreign currency is classified as nonentity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting and foreign currency accommodation exchange missions.

USACE conducts operations overseas on behalf of the U.S. Government which involves the use of foreign currency. Foreign currency fluctuations require adjustments to the original obligation amount at the time of payment. USACE does not separately identify currency fluctuations.

1.J. Accounts Receivable

Accounts receivable includes three categories: accounts, claims and refunds receivable from other federal entities or from the public. USACE bases the allowance for uncollectible accounts receivable due from the public on established percentages per aged category of the cumulative balance of delinquent public receivables. The calculation and financial transaction updates are performed automatically in CEFMS. USACE does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are resolved between the agencies, in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

1.K. Inventories and Related Property

USACE inventories are valued at historical cost based on a moving weighted average that is based on actual cost divided by quantity. A perpetual record of inventory is maintained in CEFMS to allow for recomputation of the average unit cost as new receipts are recorded. The CEFMS maintains historical cost data necessary to comply with SFFAS No. 3, *Accounting for Inventory and Related Property*.

Related property includes Operating Materials &Supplies (OM&S). OM&S are valued at net realizable value. USACE uses the consumption method of accounting for OM&S, as defined in the SFFAS No. 3, as material that has not been issued to the end user. Once OM&S is issued, the materials and supplies are expensed.

Work in process (WIP) balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. The WIP also includes the value of finished products or completed services that are yet to be placed in service and transferred to an asset account.

1.L. Investments

USACE reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investment using the effective interest rate method or another method obtaining similar results. USACE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Bureau of Public Debt (BPD), on behalf of USACE, invests in nonmarketable securities. The two types of nonmarketable securities are par value and market-based intragovernmental securities. BPD issues nonmarketable par value intragovernmental securities. Nonmarketable market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

USACE's net investments are held by three trust funds. These funds include South Dakota Terrestrial Habitat Restoration, Inland Waterways and Harbor Maintenance trust fund accounts.

1.M. General Property, Plant and Equipment

USACE General Property, Plant and Equipment (PP&E) is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost exceeds $25 thousand. In FY 2003, USACE increased the threshold (effective FY 2004) for buildings and structures to $25 thousand for all Civil Works appropriations with the exception of Revolving Fund and hydropower related assets, and expensed all previously acquired assets that did not meet the new $25 thousand threshold. All buildings and structures related to hydropower projects are capitalized regardless of cost. Prior to FY 2004, USACE capitalized all buildings and structures regardless of cost.

When it is in the best interest of the government, USACE provides government property to contractors to complete contract work. USACE either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds the DoD capitalization threshold, it must be reported on USACE's Balance Sheet.

In June 2004, USACE and the Department of Defense Office of Inspector General (DoD OIG), in coordination with the General Accountability Office and the Department of Defense Office of the Undersecretary of Defense (Comptroller)/Chief Financial Officer, executed a Memorandum of Agreement (MOA), entitled *Support for Recorded Book Cost of General Property, Plant & Equipment Assets*.

The MOA provides alternate methods for USACE to estimate and support the historical costs of its real property assets, including the administrative costs of land, acquired prior to FY 1999, and personal property assets acquired prior to FY 2003. The alternate methods are necessary because certain supporting documentation to substantiate recorded costs for those assets is no longer available. Management's alternate methods, which are consistent with the principles, relevant to USACE circumstances, as contained in Statements of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant and Equipment* and SFFAS No. 23, *Eliminating the Category National Defense Property, Plant And Equipment*, consist of using a combination of appropriation or engineering documents, or other available real estate, financial and operations data, combined with written management attestation statements, to estimate and support the original acquisition or construction costs recorded for each asset.

Construction in progress (CIP) is used to accumulate the cost of construction or additions and betterments to fixed assets. Project costs are transferred from CIP to the placed-in-service accounts when an asset or addition or betterment is determined to be substantially complete and ready for its intended use. Accumulated costs remain in CIP until these criteria are met.

1.N. Advances and Prepayments

Advances and prepayments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. Amounts are expensed or properly classified as assets when the related goods and services are received.

1.O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), USACE records the applicable asset and liability if the value equals or exceeds the current capitalization threshold. USACE records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. USACE, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

1.P. Other Assets

Other assets include travel advances that are not reported elsewhere on USACE's Balance Sheet.

1.Q. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USACE recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable and the loss amount can be reasonably estimated.

USACE discloses contingent liabilities when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation and possible claims and assessments. USACE's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for USACE's assets. This type of liability has two components: nonenvironmental and environmental. Consistent with SFFAS No. 6, Accounting for Property, Plant, and Equipment, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD policy, which is consistent with SFFAS No. 5.

1.R. Accrued Leave

USACE reports a liability for civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects current pay rates.

1.S. Net Position

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended Appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses, and financing sources (including appropriations, revenue and gains).

1.T. Unexpended Obligations

USACE obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods and services not yet delivered, unless title passes.

1.U. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable or receivable in the activity field records, as opposed to those reported by the U.S. Treasury. These amounts should agree with the undistributed amounts reported on the monthly accounting reports. In-transit payments are those payments that have been made, but have not been recorded in the fund holder's accounting records. These payments are applied to the entities' outstanding accounts payable balance. In-transit collections are those collections from other agencies or entities that have not been recorded in the accounting records. These collections are applied to the entities' accounts receivable balance.

All undistributed disbursements and collections for USACE are unrecorded Intragovernmental Payment and Collection transactions. These transactions are all federal.

1.V. Prior Period Adjustments and Changes in Presentation

The former Statement of Financing (SOF) is presented in a note, in accordance with OMB Circular A-136. The SOF is no longer considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget" in Note 21.

In accordance with OMB Circular A-136, USACE implemented a new reporting procedure for FY 2007 to exclude from its financial statement activity its transfer appropriation accounts for parent/child relationships. The Circular requires the parent agency to report all parent/child activity in its financial statements.

USACE is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity, which include all U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB for whom USACE is the child in the allocation transfer, but per OMB guidance, will report all activity relative to these allocation transfers in the Reporting Entity's financial statements. The following funds meeting the OMB Circular A-136 exceptions and all related activity are included in USACE financial statements: South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance trust funds.

USACE is a party to allocation transfers as the child for the following agencies: Department of Agriculture, Department of Commerce, Department of the Interior, Department of the Army, Department of Transportation and Department of Energy.

USACE has removed the transfer appropriation accounts from its fiscal year 2007 financial statements. This is reflected as a change in accounting principle for the September 30, 2007, financial statements. No adjustment was made to the fiscal year 2006 financial statements in conformance with OMB Circular A-136 and SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles*. Reporting the prior period adjustments in the fiscal year 2007 financial statements impact the comparability of the 2006 and 2007 financial statements. The following financial statement line items were adjusted in the 2007 financial statements to conform to the aforementioned guidance. All line items roll-up to the fiscal year 2007 beginning balance Cumulative Results of Operations and Unexpended Appropriations on the Balance Sheet and Statement of Changes in Net Position:

Fiscal Year 2007 Impact ($ in thousands)

Balance Sheet Line Items		Decrease
Fund Balance with Treasury	$	
Accounts Receivable - Intragovernmental		(68,491)
Inventory		(.3)
Plant, Property, and Equipment		(395,544)
Total Assets	**$**	**(513,049)**
Accounts Payable - Intragovernmental		(1,539)
Accounts Payable - Public		(23,534)
Other Liabilities		(2,261)
Total Liabilities	**$**	**(27,334)**
Unexpended Appropriations - Other Funds - Beginning Balances		(35,335)
Cumulative Results of Operations - Other Funds - Beginning Balances		(450,381)
Total Net Position	**$**	**(485,716)**
Statement of Changes in Net Position Line Items		
Cumulative Results of Operations - Changes in Accounting Principle	$	(450,381)
Unexpended Appropriations - Changes in Accounting Principle		(35,335)
Total Net Position	**$**	**(485,716)**

See also Note 24 - "Restatements" for corrections of errors, and the impact on comparability of the financial statements.

1.W. Accounts Payable

Accounts payable are the amounts owed by USACE for goods and services received from other entities, progress in contract performance made by other entities and rents due to other entities.

1.X. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities that are not covered by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date.

Note 2. Nonentity Assets

As of September 30	2007	2006
(Amounts in thousands)		
Intragovernmental Assets		
Fund Balance with Treasury	$ 7,596	$ 6,028
Accounts Receivable	3	0
Total Intragovernmental Assets	$ 7,599	$ 6,028
Nonfederal Assets		
Cash and Other Monetary Assets	$ 1,371	$ 1,310
Accounts Receivable	1,617,715	1,619,207
Total Nonfederal Assets	$ 1,619,086	$ 1,620,517
Total Nonentity Assets	$ 1,626,685	$ 1,626,545
Total Entity Assets	$ 42,767,736	$ 40,841,901
Total Assets	$ 44,394,421	$ 42,468,446

Other Information

Asset accounts are categorized either as entity or nonentity. Entity accounts consist of resources that USACE has authority to use or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets for which USACE maintains stewardship accountability and responsibility to report, but are not available for USACE's operations.

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit and suspense accounts and is not available for use in operations.

Intragovernmental Nonentity Accounts Receivable consist of a receivable from the U.S. Coast Guard within the Department of Homeland Security for the usage of dredge disposal areas. Nonentity accounts receivable are recorded in unavailable receipt accounts and funds will be returned to the U.S. Treasury when collected.

Cash and Other Monetary Assets reflect the Disbursing Officer's Accountability, which is comprised of change funds for recreation cashiers, disbursing officer's cash and foreign currency.

Nonentity Nonfederal Accounts Receivable represent all current and noncurrent receivables due from nonfederal sources. This includes noncurrent receivables due from state and local municipalities for long-term water storage contracts; current receivables due from state and local municipalities for water storage; accrued interest receivable; penalties, fines and administrative fees receivable; long-term receivables for hydraulic mining; leasing of land acquired for flood control purposes and the allowance for doubtful accounts. Nonentity accounts receivables are recorded in unavailable receipt accounts and funds will be returned to the U.S. Treasury when collected.

Note 3. Fund Balance with Treasury

As of September 30		2007		2006
(Amounts in thousands)				
Fund Balances				
Appropriated Funds	$	9,293,495	$	6,423,985
Revolving Funds		1,178,590		1,090,769
Trust Funds		89,257		93,727
Special Funds		9,172		5,287
Contributed Funds		559,877		504,198
Other Fund Types		35,081		29,387
Total Fund Balances	$	11,165,472		8,147,353
Fund Balances Per Treasury Versus Agency				
Fund Balance per Treasury	$	11,252,881	$	8,181,330
Fund Balance per USACE		11,165,472		8,147,353
Reconciling Amount	$	87,409	$	33,977

Reconciling Amount

Fund Balance per USACE does not include receipt accounts or cancelled appropriations, which USACE closed according to the *Treasury Financial Manual*. In addition, Fund Balance per USACE does not include transfer fund where USACE is the child in a parent/child relationship. In accordance with OMB A-136, the financial activity is reported in the financial statements of the parent entity. In addition, Fund Balance per USACE does not include transfer funds where USACE is the child in a parent/child relationship. In accordance with OMB A-136, the financial activity is reported in the financial statements of the parent entity. Fund Balance per USACE includes cash reported by the U.S. Treasury for Inland Waterways and Harbor Maintenance trust funds, for which USACE is identified as the lead agency for reporting.

Other Information

Appropriated Funds include net disbursements for undistributed Intragovernmental Payment and Collection (IPAC) transactions. These are distributed to the appropriate funds the following month.

Other Fund Types (nonentity) consist of deposit accounts which are not available to finance USACE activities. Other Fund Types (entity) consists of borrowing authority and the suspense account established to finance Washington Aqueduct operations.

Status of Fund Balance with Treasury

As of September 30		2007		2006
(Amounts in thousands)				
Unobligated Balance				
Available	$	9,476,914	$	9,047,910
Unavailable		3,998,871		3,557,277
Obligated Balance not yet Disbursed	$	5,791,650	$	5,401,043
Nonbudgetary FBWT	$	8,481	$	54,953
Non FBWT Budgetary Accounts	$	(8,110,444)	$	(9,913,830)
Total	$	11,165,472	$	8,147,353

Definitions

The Status of Fund Balance with Treasury reflects the budgetary resources to support the Fund Balance with Treasury (FBWT).

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

Obligated Balance not yet Disbursed represents funds that have been obligated for goods that have not been received, services that have not been performed and goods and services that have been delivered/received but not yet paid.

Nonbudgetary FBWT includes entity and nonentity FBWT accounts, which represent adjustments that do not have budgetary authority, such as clearing accounts.

Non FBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT, such as borrowing authority, investment accounts, accounts receivable and unfilled orders without advance from customers. This category reduces the Status of Fund Balance with Treasury.

Restricted Unobligated Unavailable Balances

Unobligated balances are segregated to show available and unavailable amounts. Unavailable unobligated balances are restricted to future use and are not apportioned for current use. The USACE is the lead agency for reporting the financial data for the Inland Waterways, Harbor Maintenance and South Dakota Terrestrial Wildlife Habitat Restoration trust funds. These trust funds remain invested and restricted for use until transferred to meet current expenditure requirements. The U.S. Treasury, Bureau of Public Debt (BPD), maintains custody of the investments and the investment accounting records used by USACE in financial reporting and invests the trust fund receipts.

Note 4. Investments and Related Interest

As of September 30 (Amounts in thousands)	2007				
	Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 4,058,474	Level Yield Calculation	$ (44,129)	$ 4,014,345	$ 4,043,109
Accrued Interest	24,008	N/A	0	24,008	24,008
Total Intragovernmental Securities	$ 4,082,482		$ (44,129)	$ 4,038,353	$ 4,067,117
	2006				
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 3,632,883	Level Yield Calculation	$ (81,320)	$ 3,551,563	$ 3,519,489
Accrued Interest	19,893	N/A		19,893	19,893
Total Intragovernmental Securities	$ 3,652,776		$ (81,320)	$ 3,571,456	$ 3,539,382

Other Information

The Federal Government does not set aside assets to pay future benefits and expenditures associated with earmarked funds. The earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of earmarked fund receipts. The U.S. Treasury securities are an asset to USACE and a liability to the U.S. Treasury. The U.S. Treasury securities provide USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures.

The breakdown of total investments among the trust funds for FY 2007 is as follows: $3.7 billion in the Harbor Maintenance Trust Fund, $204.1 million in the Inland Waterways Trust Fund and $102.5 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

The breakdown of total investments among the trust funds for FY 2006 was: $3.2 billion in the Harbor Maintenance Trust Fund, $262.3 million in the Inland Waterways Trust Fund and $88.7 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

The U.S. Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2007 and September 30, 2006, respectively.

Note 5. Accounts Receivable, Net

As of September 30	2007		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 873,119	$ N/A	$ 873,119
Nonfederal Receivables (From the Public)	1,650,508	(5,934)	1,644,574
Total Accounts Receivable	$ 2,523,627	$ (5,934)	$ 2,517,693

	2006		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 2,696,060	$ N/A	$ 2,696,060
Nonfederal Receivables (From the Public)	1,647,516	(6,084)	1,641,432
Total Accounts Receivable	$ 4,343,576	$ (6,084)	$ 4,337,492

Other Information

The amount of public receivables on the Treasury Report on Receivables Due from the Public (TROR) differs from the balance of public receivables reported on the Balance Sheet by the amount of the allowance for uncollectible accounts receivable. The TROR, unlike the Balance Sheet, does not include the allowance for estimated uncollectible accounts receivable.

In accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, USACE implemented a new reporting procedure for FY 2007 to exclude transfer appropriation accounts for parent/child relationships. For the impact on USACE Accounts Receivable, refer to Note 1.V., "Prior Period Adjustments and Changes in Presentation".

Aged Accounts Receivable

As of September 30	2007		2006	
(Amounts in thousands)	Intragovernmental	Nonfederal	Intragovernmental	Nonfederal
CATEGORY				
Nondelinquent				
Current	$ 854,294	$ 69,364	$ 1,028,262	$ 71,567
Noncurrent	0	1,468,864	0	1,489,600
Delinquent				
1 to 30 days	$ 2,544	$ 2,370	$ 181,164	$ 2,931
31 to 60 days	1,890	94,088	169,359	282
61 to 90 days	11	2,485	11	147
91 to 180 days	21,304	272	604,648	334
181 days to 1 year	8,555	1,594	718,231	15,529
Greater than 1 year and less than or equal to 2 years	16,880	1,830	1,970	15,857
Greater than 2 years and less than or equal to 6 years	3,357	6,528	4,496	43,380
Greater than 6 years and less than or equal to 10 years	6	11,790	11	7,889
Greater than 10 years	0	4,612	0	0
Subtotal	$ 908,841	$ 1,663,797	$ 2,708,152	$ 1,647,516
Less Eliminations	(35,723)	0	(12,092)	0
Total	$ 873,118	$ 1,663,797	$ 2,696,060	$ 1,647,516

Nondelinquent Noncurrent Nonfederal Receivables (From the Public)

In FY 2006 and FY 2007, the $1.5 billion in nondelinquent noncurrent nonfederal receivables consists of amounts due from state and local municipalities for long-term water storage contracts.

Delinquent Intragovernmental Receivables

In FY 2007, the total delinquent intragovernmental accounts receivable was $54.5 million. Of this amount, $44.6 million was due from the Federal Emergency Management Agency (FEMA), predominately for receivables associated with disaster relief efforts conducted by USACE New Orleans and Vicksburg districts for hurricanes Katrina and Rita. In FY 2007 and prior, FEMA required extensive supporting documentation before paying these disaster bills. This requirement for support is labor intensive, and obtaining support from other federal agencies is difficult, which caused a delay in the payment by FEMA. USACE has reduced its FEMA receivables by $1.6 billion since September 30, 2006. USACE has entered into a new agreement with FEMA to process collections for disaster relief accounts receivable on a current basis using U.S. Treasury Intragovernmental Payment and Collection system. Effective in FY 2008, USACE will no longer be required to provide supporting documentation before collection can be accomplished. Supporting documentation will be provided to FEMA following the collection. USACE also has delinquent receivables from the U.S. Coast Guard and Environmental Protection Agency (EPA) totaling $7.4 million at September 30, 2007. These receivables are primarily for work being conducted under the Oil Pollution Act of 1990. The U.S. Coast Guard and EPA require extensive supporting documentation before paying these bills. USACE continues to work with the EPA and U.S. Coast Guard to resolve their delinquent receivables and will continue to provide detailed billing information.

In FY 2006, the total delinquent intragovernmental accounts receivable was $1.7 billion. Of the $1.7 billion delinquent, $1.6 billion was due from FEMA mostly resulting from the receivables associated with hurricanes Katrina, Rita and Wilma at USACE New Orleans, Vicksburg and Galveston Districts. USACE reduced its delinquent FEMA receivables by $552.0 million from July 2006 through the end of FY 2006. This was due to new Intragovernmental Payment and Collection (IPAC) arrangements coupled with concerted efforts among Headquarters USACE, the USACE Finance Center and FEMA personnel to reduce delinquent amounts. The U.S. Coast Guard and the Environmental Protection Agency had delinquent receivables totaling $10.3 million at September 30, 2006, of which $8.0 million was related to the Oil Pollution Act. USACE continued to evaluate and improve the effectiveness of the intragovernmental payment and collections process and implement improvements to these processes.

Delinquent Nonfederal Receivables (From the Public)

In FY 2007, the amount of delinquent nonfederal receivables was $125.6 million. USACE has $117.3 million in delinquent receivables for municipal water storage that are currently in litigation, primarily at USACE Jacksonville and Tulsa districts. Additionally, $126.7 thousand was referred to the U.S. Treasury offset program, $75.8 thousand was referred to the U.S. Treasury for cross servicing and $8.1 million is being pursued by USACE.

In FY 2006, the amount of delinquent nonfederal receivables was $86.3 million. Of the total delinquent receivables, $52.8 million was owed by the Commonwealth of Puerto Rico on a 50 year contract for the Cerrillos Dam water storage at USACE Jacksonville District. Additionally, $14.3 million was owed by the Oklahoma Water Resources Board for water storage space at USACE Tulsa District.

Note 6. Other Assets

As of September 30	2007	2006
(Amounts in thousands)		
Nonfederal Other Assets		
Other Assets (With the Public)	$ 494	$ 0

Other Information

Other Assets (With the Public) consists of advances issued to employees for temporary duty and permanent change of station travel.

Note 7. Cash and Other Monetary Assets

As of September 30	2007	2006
(Amounts in thousands)		
Cash	$ 52	$ 497
Foreign Currency	1,319	813
Total Cash, Foreign Currency, & Other Monetary Assets	$ 1,371	$ 1,310

Other Information

USACE translates foreign currency to U.S. dollars utilizing the U.S. Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the Federal Government acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. There are no significant effects from changes in the foreign currency exchange rate. Foreign currency is a nonentity asset and is considered a restricted asset.

Note 8. Stewardship PP&E

Heritage Assets

On October 30, 2003, Engineer Regulation (ER) 200-1-5, Policy for Implementation and Integrated Application of the USACE Environmental Operating Principles and Doctrine, was issued. The ER states, in part, "The Environmental Operating Principles and associated doctrine highlight USACE's roles in, and responsibilities for, sustainability, preservation, stewardship, and restoration of our nation's resources. These principles and associated doctrine are based on the premise that through the restoration and maintenance of environmental health and productivity, both economic development and social equity can be achieved."

Heritage assets classified as land are special land plots containing archaeological sites as listed on the National Register of Historic Places or determined eligible to be listed by the agency and the Keeper of the National Register. Cemeteries and archeological sites are archeological properties listed on, or eligible for, the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the continental U.S. beginning with the Kennewick Man Discovery Site in the state of Washington, dating back approximately 10,000 years, to archeological remains of early European-American settlements, such as Fort Independence in Georgia. The current National Register inventory for USACE includes 489 archeological properties determined to be eligible for listing and 97 archeological properties listed.

Buildings and structures include a range of historic resources from a covered bridge in the Sacramento district to early farming structures in the Savannah district. It also includes some nontraditional structures such as a snag boat that operated on the Mississippi River. The USACE has 117 buildings and structures listed on the National Register and 236 determined eligible for listing.

The USACE acquired no heritage assets during FY 2007.

The USACE currently does not have any land classified as stewardship land.

Note 9. Inventory and Related Property

As of September 30	2007	2006
(Amounts in thousands)		
Work in Process	$ 15,586	$ 24,259
Operating Materials & Supplies, Net	106,118	97,081
Total	$ 121,704	$ 121,340

In accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, USACE implemented a new reporting procedure for FY 2007 to exclude transfer appropriation accounts for parent/child relationships. For the impact on USACE Inventory, refer to Note 1.V., "Prior Period Adjustments and Changes in Presentation".

Work in Process Inventory

There are no restrictions on the use, sale or disposition of Work in Process (WIP) inventory. The WIP inventory valuation method is based on a moving weighted average based on actual cost divided by quantity (Moving Average Cost, or MAC). USACE has no revaluation allowances for WIP inventory for FY 2007 or FY 2006. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded.

Operating Materials and Supplies

There are no restrictions on the use of Operating Materials and Supplies (OM&S). The general composition of USACE OM&S is personal property held for use to be consumed in normal operations. The OM&S category includes materials used for constructing riverbank stabilization devices, spare and repair parts, miscellaneous office supplies and prepaid postage. The valuation method is based on net realizable value (NRV). OM&S, Supplies are net of a $15 thousand revaluation allowance at both September 30, 2007 and 2006. The appropriate classification of OM&S reserves is determined by factoring the relevant cost associated with maintaining the available operating materials and supplies, as well as the time required to replenish the operating materials and supplies.

Note 10. General Propery, Plant & Equipment, Net

As of September 30	2007				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 9,000,775	$ N/A	$ 9,000,775
Buildings, Structures, and Facilities	S/L	20 - 100	27,849,270	(13,420,755)	14,428,515
Leasehold Improvements	S/L	lease term	38,442	(28,634)	9,808
Software	S/L	2-5 Or 10	84,093	(67,099)	16,994
General Equipment	S/L	5 - 50	1,446,660	(689,859)	756,801
Construction-in- Progress	N/A	N/A	2,494,195	N/A	2,494,195
Other			27,508	(1)	27,507
Total General PP&E			$ 40,940,943	$ (14,206,348)	$ 26,734,595
Major Asset Classes	2006				
Land	N/A	N/A	$ 8,805,567	$ N/A	$ 8,805,567
Buildings, Structures, and Facilities	S/L	20 Or 40	27,139,700	(13,039,517)	14,100,183
Leasehold Improvements	S/L	lease term	37,755	(24,355)	13,400
Software	S/L	2-5 Or 10	82,702	(57,206)	25,496
General Equipment	S/L	5 or 10	1,303,868	(654,981)	648,887
Construction-in- Progress	N/A	N/A	2,668,686	N/A	2,668,686
Other			27,277	(1)	27,276
Total General PP&E			$ 40,065,555	$ (13,776,060)	$ 26,289,495

Legend for Depreciation Methods:
S/L = Straight Line
N/A = Not Applicable

General PP&E

In accordance with Office of Management and Budget Circular A-136, Financial Reporting Requirements, USACE implemented a new reporting procedure for FY 2007 to exclude transfer appropriation accounts for parent/child relationships. For the impact on USACE Plant, Property and Equipment balance, refer to Note 1.V., "Prior Period Adjustments and Changes in Presentation".

In FY 2007, USACE received $73.8 million in direct appropriations from the Department of Energy, Power Marketing Administration, for operation and maintenance activities at hydroelectric power plants operated by USACE at the Portland, Seattle and Walla Walla districts. During FY 2006, the USACE received $68.8 million.

The service life for USACE's multiple purpose project assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets made up $9.7 billion of the book value of USACE's PP&E in FY 2007 and FY 2006. The USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24% of America's hydroelectric power. All power generated by these hydroelectric power plants is transmitted to four Power Marketing Administrations for distribution to power companies across the United States.

In USACE's FY 2007 and FY 2006 CIP account, $151.0 million of the $2.7 billion (6%) is attributable to a dormant project formally known as the "Elk Creek Lake Project" located at USACE Portland district. The project, which was authorized by the 1962 Flood Control Act, was originally authorized for the purpose of flood control. In 1971, construction began on the project but after completing only 33% of its design height, the project was shut down due to a court-ordered injunction. Additional analysis under the National Environmental Policy Act is required to remove the injunction. To date, the environmental concerns have not been resolved and the project is in a hold status until such time these issues are resolved. Therefore, USACE will continue to carry the construction costs of the "Elk Creek Lake Project" in the CIP account until a final decision is made concerning the outcome of the project.

The USACE Civil Works Program had $126.5 million in General PP&E outside the continental U.S. in the Pacific Ocean Division in FY 2007 and $128.2 million in FY 2006. There are no restrictions on the use or convertibility of this PP&E.

As of September 30, 2006 and 2007, Land includes a cumulative total of $ 2.6 billion of intangible assets comprised of relocation and administrative cost associated with the acquisition of land in conjunction with hydropower projects.

As of September 30, 2006 approximately $26.3 billion of the $40.0 billion recorded in the PP&E line was being supported by alternate methods pursuant to the Memorandum of Agreement described in Note 1.O "Leases". As of September 30, 2007 approximately $26.3 billion of the $40.9 billion recorded in the PP&E line was being supported by alternate methods pursuant to the Memorandum of Agreement described in Note 1.O "Leases".

Other consists of assets awaiting disposal and for which depreciation is no longer recorded.

Note 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2007	2006
(Amounts in thousands)		
Intragovernmental Liabilities		
Debt	$ 12,917	$ 13,592
Due to Treasury	1,468,894	1,621,914
Other	362,573	207,512
Total Intragovernmental Liabilities	$ 1,844,384	$ 1,843,018
Nonfederal Liabilities		
Federal Employee and Veterans' Benefits	251,584	250,272
Environmental Liabilities	656,123	657,497
Other Liabilities	106,000	76,275
Total Nonfederal Liabilities	$ 1,013,707	$ 984,044
Total Liabilities Not Covered by Budgetary Resources	$ 2,858,091	$ 2,827,062
Total Liabilities Covered by Budgetary Resources	$ 1,494,411	$ 1,639,151
Total Liabilities	$ 4,352,502	$ 4,466,213

Other Information

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided.

Intragovernmental Liabilities is debt comprised of the amount owed by USACE to the U.S. Treasury for capital improvements to the Washington Aqueduct. Arlington County and the city of Falls Church, Virginia provide funding to USACE to repay the debt. Refer to Note 13, "Debt," for additional details and disclosures.

Intragovernmental Liabilities – Other includes offsetting custodial liability to accounts receivable. The custodial liability is for amounts that will be deposited in the general fund of the U.S. Treasury when collected and are primarily related to water storage contracts. Budgetary resources are not required for custodial liabilities.

Nonfederal Liabilities – Federal Employee and Veterans' Benefits include actuarial liability for Federal Employee Compensation Act (FECA). Refer to Note 17, "Federal Employee and Veterans' Benefits," for additional details and disclosures. The FECA actuarial liability is a future funded expense and will be funded in future appropriations.

Nonfederal Liabilities - Environmental Liabilities include future funded expense for estimated cleanup costs for contingent environmental liabilities. The liabilities will be funded in future appropriations. Refer to Note 14, "Environmental Liabilities," and Note 15, "Other Liabilities," for additional details and disclosures.

Nonfederal Liabilities – Other Liabilities include contingent liability for probable losses totaling $106 million and $76.2 million for FY 2007 and FY 2006, respectively related to lawsuits filed by the state of Nebraska, the county of Knox, Nebraska, Ashbritt and contingent liability based on percentage of tort, litigation and contract dispute claims. Contingent liabilities may be funded in future appropriations. Refer to Note 16 "Commitments and Contingencies" for additional details and disclosures.

Note 12. Accounts Payable

As of September 30	2007		2006	
(Amounts in thousands)	Accounts Payable	Total	Accounts Payable	Total
Intragovernmental Payables	$ 128,411	$ 128,411	$ 133,029	$ 133,029
Nonfederal Payables (to the Public)	839,715	839,715	862,035	862,035
Total	$ 968,126	$ 968,126	$ 995,064	$ 995,064

In accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, USACE implemented a new reporting procedure for FY 2007 to exclude transfer appropriation accounts for parent/child relationships. For the impact on USACE Accounts Payable, refer to Note 1.V., "Prior Period Adjustments and Changes in Presentation".

Intragovernmental Payables consist of amounts owed to other federal agencies for goods or services ordered and received, but not yet paid.

USACE has no known delinquent accounts payable.

Note 13. Debt

As of September 30	2007			2006		
(Amounts in thousands)	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)						
Debt to the Treasury	$ 13,924	$ (1,007)	$ 12,917	$ 14,600	$ (676)	13,924

Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. The USACE borrowed funds for capital improvements to the Washington Aqueduct. During fiscal years 1997, 1998, and 1999, USACE executed three promissory notes totaling $75.0 million with the U.S. Treasury. The USACE entered into agreements with the District of Columbia, Arlington County and the city of Falls Church, Virginia to provide funding to USACE to repay the debt. As of 2nd Quarter, FY 2004, the District of Columbia had provided its entire portion of the funding to USACE. The remaining debt balance is scheduled to be paid off in FY 2023. The actual cumulative amount of funds borrowed from the U.S. Treasury is $74.9 million. There were no withdrawals from the U.S. Treasury for FY 2007 or FY 2006. Total principal repayments in FY 2007 were $675.0 thousand and the remaining interest of $332.0 thousand was paid 2nd Quarter, FY 2007. Total principal repayments in FY 2006 were $659.1 thousand and interest of $16.4 thousand.

Note 14. Environmental Liabilities and Disposal Liabilities

As of September 30		2007		2006
(Amounts in thousands)				
Other Accrued Environmental Active Installations-Other				
Formerly Utilized Sites Remedial Action Program, which was established to respond to radiological contamination from early US Atomic Energy and Weapons Program	$	637,872	$	653,315
Sonoma Firing Range and Underground Storage Tank Monitoring Wells, Mount Morris Dam, Bradford Island Landfill, John H. Kerr Dam and Reservoir, Missouri River Project and J. Strom Thurmond Project.	$	18,251	$	4,182
Total	**$**	656,123	$	657,497

Other Information

USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), which was established to respond to radiological contamination from an early U.S. Atomic Energy and Weapons Program. This program is funded through a Civil Works appropriation. The amount of the liability was determined after studies were completed and final Records of Decision documenting the cleanup requirements prepared. The amount of the liability was recorded as Other Accrued Environmental Liabilities.

Applicable laws and regulations for cleanup requirements encompass Energy and Water Development Appropriations Act, Public Law 106-60 § 611; Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 United States Code § 9601 et seq., as amended; and National Oil and Hazardous Substances Pollution Contingency Plan, Title 40 Code of Federal Regulations 300. There are no changes to total cleanup costs due to changes in laws, regulations and/or technology related to the current or prior periods. Consistent with the requirements of CERCLA, USACE coordinates with regulatory agencies, other responsible parties and current property owners.

USACE uses site-specific engineering estimates for assigning estimated environmental costs. Both the cost to complete remedial investigation/feasibility studies through a Record of Decision and the estimated cost of chosen remedies are reported. Engineering estimates, using appropriate tools, such as the Micro-Computer Assisted Cost Estimating System, and using the extensive data collected during the remedial investigation/feasibility study phase of the environmental project are utilized. The volume of contaminated material and the cost to dispose of such material, including transportation, are the elements of project estimates with the greatest uncertainty and potential for significant effect upon project costs. The estimated costs of studies are reported during the early part of the remedial investigation and the estimated cost of the chosen remedy is reported after release of the Proposed Plan.

USACE is not aware of any necessary changes in estimated environmental liabilities currently due to inflation, deflation, technology or applicable laws and/or regulations. Estimated liabilities, however, can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies and advances in technology.

For FY 2007, USACE recognizes current and noncurrent environmental liabilities for FUSRAP in the amount of $637.8 million at the following project sites: St. Louis Downtown Site Accessible Soils, St. Louis Airport Site, Latty Avenue Properties Site, St. Louis Airport Vicinity Properties Site, Maywood Site Soils, Middlesex Sampling Plant Soils, Shpack Landfill Site, W. R. Grace Building 23 Site, Colonie Interim Storage Site Soils, Luckey Site Soils, Linde Air Products Site Soils, Painesville Site, Ashland Site, St. Louis Downtown Site Inaccessible Soils, Iowa Army Ammunition Plant FUSRAP Site, Colonie Interim Storage Site Groundwater, Maywood Site Groundwater, Middlesex Sampling Plant Site Groundwater, Combustion Engineering Site, DuPont Chambers Works Site, W. R. Grace Radioactive Waste Disposal Area Site, Sylvania-Corning Plant Site, Linde Air Products Site Groundwater, Luckey Site Groundwater, Seaway Industrial Park Site, Shallow Land Disposal Area Site, Former Harshaw Chemical Company Site, Guterl Specialty Steel Site, and Niagara Falls Interim Storage Site.

In FY 2006, USACE recognized noncurrent environmental liabilities for the FUSRAP in the amount of $657.5 million at the following project sites: St. Louis Downtown Site Accessible Soils, St. Louis Airport Site, Latty Avenue Properties Site, St. Louis Airport Vicinity Properties Site, Maywood Site Soils, Middlesex Sampling Plant Soils, Shpack Landfill Site, W. R. Grace Building 23 Site, Colonie Interim Storage Site Soils, Luckey Site Soils, Linde Air Products Site Soils, Painesville Site, Ashland Site, St. Louis Downtown Site Inaccessible Soils, Iowa Army Ammunition Plant FUSRAP Site, Colonie Interim Storage Site Groundwater, Maywood Site Groundwater, Middlesex Sampling Plant Site Groundwater, Combustion Engineering Site, DuPont Chambers Works

Site, W. R. Grace Radioactive Waste Disposal Area Site, Sylvania-Corning Plant Site, Linde Air Products Site Groundwater, Luckey Site Groundwater, Seaway Industrial Park Site, Shallow Land Disposal Area Site, Former Harshaw Chemical Company Site, Guterl Specialty Steel Site, and Niagara Falls Interim Storage Site.

USACE acknowledges reasonably possible contingent environmental liabilities related to FUSRAP for FY 2007 and FY 2006, but the liability amounts are currently unknown and USACE cannot determine an estimable range of loss. The project sites are: St. Louis Downtown Site Inaccessible Soils, Iowa Army Ammunition Plant FUSRAP Site, Middlesex Sampling Plant Site Groundwater, Combustion Engineering Site, DuPont Chambers Works Site, W. R. Grace Radioactive Waste Disposal Area Site, Seaway Industrial Park Site, Niagara Falls Storage Site, Former Harshaw Chemical Company Site, Guterl Specialty Steel Site, Colonie Interim Storage Site Groundwater, Josyln Manufacturing, Scioto Laboratory, and Superior Steel Site.

For FY 2007, USACE recognizes other environmental liabilities not related to FUSRAP in the amount of $18.2 million. The project sites are: Sonoma Firing Range and Sonoma Underground Storage Tanks Monitoring Wells in Sonoma, California; Mount Morris Dam in New York; Bradford Island Landfill in Oregon; John H. Kerr Dam and Reservoir in Virginia; Missouri River Project in Nebraska; and J. Strom Thurmond Project in Georgia.

For FY 2006, USACE reported other environmental liabilities not related to FUSRAP in the amount of $4.2 million for the following project sites: Sonoma Firing Range and Sonoma Underground Storage Tanks Monitoring Wells in Sonoma, California; Black Rock Lock and Mount Morris Dam in New York; and Bradford Island Landfill.

Note 15. Due to Treasury and Other Liabilities

As of September 30	2007		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental Due to Treasury	**$ 113,355**	**$ 1,503,706**	**$ 1,617,061**
Advances from Others	$ 26,768	$ 0	$ 26,768
Deposit Funds and Suspense Account Liabilities	2,313	0	2,313
Disbursing Officer Cash	48	0	48
Judgment Fund Liabilities	167,410	0	167,410
FECA Reimbursement to the Department of Labor	20,660	26,335	46,995
Other Liabilities	13,928	0	13,928
Total Intragovernmental Other Liabilities	**$ 344,482**	**$ 1,530,041**	**$ 1,874,523**
Nonfederal			
Accrued Funded Payroll and Benefits	$ 356,720	$ 0	$ 356,720
Advances from Others	37,288	0	37,288
Deposit Funds and Suspense Accounts	7,596	0	7,596
Other Liabilities	187,322	0	187,322
Total Nonfederal Other Liabilities	**$ 588,926**	**$ 0**	**$ 588,926**

As of September 30	2006		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental Due to Treasury	**$ 78,023**	**$ 1,539,435**	**$ 1,617,458**
Advances from Others	$ 9,835	$ 0	$ 9,835
Deposit Funds and Suspense Account Liabilities	1,648	0	1,648
Disbursing Officer Cash	493	0	493
Judgment Fund Liabilities	164,221	0	164,221
FECA Reimbursement to the Department of Labor	20,522	27,224	47,746
Other Liabilities	13,830	0	13,830
Total Intragovernmental Other Liabilities	**$ 288,572**	**$ 1,566,659**	**$ 1,855,231**
Nonfederal			
Accrued Funded Payroll and Benefits	$ 380,917	$ 0	$ 380,917
Advances from Others	73,883	0	73,883
Deposit Funds and Suspense Accounts	6,978	0	6,978
Other Liabilities	232,144	0	232,144
Total Nonfederal Other Liabilities	**$ 693,922**	**$ 0**	**$ 693,922**

Other Information

Intragovernmental - Due to Treasury is comprised of the custodial liability to offset interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury.

Intragovernmental - Other Liabilities represent future revenue from hydraulic mining contracts. USACE records a custodial liability for payables from water storage and hydraulic mining contracts.

Nonfederal Other Liabilities includes contract holdbacks on construction-in-progress payments and unfunded contingent liabilities for probable losses for contract claims, civil litigation and tort claims.

Judgment Fund Liabilities. USACE Civil Works Directorate recognized 41 unfunded liabilities in FY 2007 and 37 in FY 2006 arising from Judgment Fund Contract Disputes Act (CDA) settlements, in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, *Accounting for Treasury Judgment Fund Transactions*. USACE cannot fund the CDA claims since USACE is funded for projects and does not include an allowance for this type of claim. USACE sought supplemental appropriations for payment of CDA claims in FY 2000 and FY 2006, which were not approved. The FY 2007 budget does not provide funding for payment of the CDA claims. The U.S. Government Accountability Office is currently reviewing the status of the outstanding CDA claims and should provide recommendations regarding the payment or other treatment of these claims.

Note 16. Commitments and Contingencies

Disclosures Related to Commitments and Contingencies:

The U.S. Army Corps of Engineers (USACE) is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The USACE has accrued contingent liabilities for legal actions where the USACE's Office of the General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the government, some of the liabilities may be paid from the Department of the Treasury's Judgment Fund. The USACE discloses amounts recognized as contingent liabilities in Note 15 "Other Liabilities". Amounts that are determined to be payable by the Judgment Fund are reclassified as an imputed financing source and disclosed in Note 19 "Disclosures Related to the Statement of Changes in Net Position".

The U.S. Army Claims Service (USARCS) supervises, processes, investigates, adjudicates and negotiates the settlement of non-contractual administrative claims on behalf of, and against, the Department of the Army (including USACE); however, because of their uniqueness, the hurricane Katrina-related administrative claims are processed differently, as discussed below. By law, administrative claims filed against the government are either adjudicated, denied or are effectively denied if no action is taken within six months from the claim filing date. Barring such resolution within six months from the date of filing, claimants may file legal cases with the Federal court. Filing of an administrative claim for resolution is a required precursor to a claimant's filing against the government in Federal court.

Claims settled below the statutory threshold of $2,500 are paid using Civil Works appropriations; settlements above this threshold are referred to Treasury's Judgment Fund for payment. With the exception of the Contract Disputes Act and Notification and Federal Employee Antidiscrimination and Retaliation Act, settlements disclosed in Note 15 "Other Liabilities", are amounts that are paid by the Judgment Fund and recorded as expenses and imputed financing sources and are disclosed in Note 19 "Disclosures Related to the Statement of Changes in Net Position".

Katrina-Related Claims and Litigation

Numerous administrative claims have been filed with USACE as a result of hurricane Katrina. Over 489 thousand, as of September 30, 2007, and over 25 thousand, as of September 30, 2006, Federal Tort Claims Act administrative claims have been filed by claimants seeking approximately $152 billion and $104 billion (respectively) as compensation for alleged personal injury, wrongful death, and property damages as a result of massive flooding caused by hurricane Katrina [Satisfies the disclosure requirements of (B) above]. Since claimants are allowed to file with USACE for up to two years after the event, Katrina-related administrative claims were accepted through August 29, 2007. The U.S. Department of Justice (DOJ) currently has the responsibility to collect, record and track these Katrina-related administrative claims due to their volume and the dollar amounts claimed. DOJ has established a stand-alone system to track them, and continues to perform reviews to identify and remove possible duplicates; therefore, the estimated Katrina-related administrative claims information summarized above is subject to change. DOJ expects to complete its review and processing of adjustments in June 2008, and plans to transition responsibility for maintaining these administrative claims to USARCS at that time.

The DOJ, USARCS, and USACE have not settled or denied any Katrina-related administrative claims. USARCS and USACE, who bear the decision-making responsibility for settling the claims, subject to DOJ approval, have indicated they do not intend to settle or deny any Katrina-related administrative claim prior to lapse of the statutory six-month period. As a result, such unsettled claims have the potential of becoming litigations in Federal court at the claimants' discretion.

In addition to the administrative claims, the Katrina-related cases filed in Federal courts against USACE have aggregated alleged damages of approximately $277 billion as of September 30, 2007 and approximately $106 billion as of September 30, 2006. Katrina-related administrative claims described above and other possible matters not currently known may result in additional litigation in Federal court. A case may be filed in Federal court up to six years after the right of first action accrues with the plaintiff.

The DOJ, which is responsible for litigating Katrina-related matters in Federal court on behalf of the government, intends to vigorously defend the government in these matters. DOJ has concluded that there is a reasonable possibility that the Katrina-related administrative claims and court cases currently asserted could result in a loss to the Federal government, with the estimated potential loss ranging between $10 billion and $100 billion [Satisfies the disclosure requirements of (C) above]. The amount of losses pertaining to potential hurricane Katrina-related damages not currently asserted against USACE, if any, is not determinable [Satisfies the disclosure requirements of (A) above].

The majority of cases currently pending as of September 30, 2007, have been divided into three groups: Robinson v. United States, the lead case, and the LEVEE and MRGO groups. The LEVEE and MRGO groups are primarily based on geography of the city of New Orleans, LA. In both Robinson and the LEVEE group, the United States filed a motion to dismiss asserting immunity under the Flood Control Act, 33 U.S.C. SS 702c, and the FTCA, 28 U.S.C. SS 2680 (a). The Robinson and the LEVEE group was denied, the Court having ruled that factual development was required in order to decide whether the United States is immune. The second motion to dismiss remains pending and a ruling is expected in one to two months. The court declined to certify the Robinson ruling for interlocutory appeal, and if the LEVEE motion to dismiss also is denied, it is not expected to be certified for appeal. Discovery in all cases is ongoing on the issue of class certification as well as liability. Hearings on motions to certify a class were scheduled for November 2007. Summary judgment motions in the Robinson case were scheduled to be filed in November 2007 with oral arguments in January 2008. If the United States' motion for summary judgment is denied, merits discovery will continue in all cases, and trials are scheduled for September 2008 in Robinson and the spring of 2009 in the LEVEE AND MRGO cases.

On 31 January 2008, Judge Stanwood Duval ruled that the Corps should be held immune over the failure of the canal wall which caused much of the flooding of New Orleans in 2005. The ruling relied on the Flood Control Act of 1928, which made the federal government immune when flood-control projects fail. The plaintiffs do plan to file an appeal to the 5th U.S. Circuit Court of Appeals.

Other Litigation

Outside of Katrina-related litigation, USACE has 23 and 24 cases, as of September 30, 2007 and 2006, respectively, above the materiality threshold of $7.2 million. The USACE OGC has determined that 3 and 5 cases are probable, 1 and 0 cases are reasonably possible, 9 and 6 cases are not determinable, and 10 and 13 cases are remote as of September 30, 2007 and 2006, respectively. Of the 3 and 5 probable cases, 3 and 2 are recorded as liabilities for $80 million and $40 million dollars and the amount for the remaining 0 and 3 probable cases were not determinable, as of September 30, 2007 and 2006, respectively. As of September 30, 2007 and 2006, the 1 and 0 reasonably possible cases had an estimated potential loss of $400 thousand and $0, respectively.

The USACE management treated cases for which the USACE OGC was unable to determine a potential adverse outcome, as reasonably possible. The total amount of relief sought for the 10 and 6 cases is $289 million and $202.4 million and the potential loss is not determinable, as of September 30, 2007 and 2006, respectively.

Additionally, USACE had a total of $260 million as of September 30, 2007, and $330.0 million as of September 30, 2006, in pending contract claims, civil litigation and non-Katrina tort cases which were individually under the threshold of $7.2 million. As such, the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual basis (as with the over-threshold cases). The likelihood of an unfavorable or potential liability was determined by using a three-year historical average. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last three years which were then used to calculate the three year average of 10%. This average represents the percentage that has historically been paid on claims and is based entirely on historical data. The merits of each individual case have not been taken into consideration. Based on the 10% average, a contingent liability of $26 million as of September 30, 2007, and $33 million as of September 30, 2006, was recorded.

Other Contingencies

The USACE does not have undelivered orders for open contracts citing cancelled appropriations which may remain unfilled or unreconciled and for which the reporting entity may incur a contractual commitment for payment.

The USACE does not have contractual arrangements such as fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Dispute" clause contained in contracts.

Note 17. Federal Employee and Veterans' Benefits

As of September 30 *(Amounts in thousands)*	Present Value of Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Liability
	2007			
Other Actuarial Benefits				
FECA	$ 251,584	4.93	$ 0	$ 251,584
Total Other Actuarial Benefits	$ 251,584		$ 0	$ 251,584
Other Federal Employment Benefits	$ 303	N/A	$ (303)	$ 0
Total Federal Employee and Veterans' Benefits:	$ 251,887		$ (303)	$ 251,584
	2006			
Other Actuarial Benefits				
FECA	$ 250,272	4.53	$ 0	$ 250,272
Total Other Actuarial Benefits	$ 250,272		$ 0	$ 250,272
Other Federal Employment Benefits	$ 303	N/A	$ (303)	$ 0
Total Federal Employee and Veterans' Benefits:	$ 250,575		$ (303)	$ 250,572

Federal Employees Compensation Act (FECA)

Actuarial Cost Method Used and Assumptions: The Department of the Army (DA) actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the DA at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

FY 2007
4.930 % in Year 1
5.078 % in Year 2 and thereafter

FY 2006
5.170 % in Year 1
5.313 % in Year 2 and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2007 and 2006, respectively, were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the FY 2007 projections for various CBYs were as follows:

CBY	COLA	CPIM
2007	2.63%	3.74%
2008	2.90%	4.04%
2009	2.47%	4.00%
2010	2.37%	3.94%
2011+	2.30%	3.94%

The compensation COLAs and CPIMs used in the FY 2006 projections for various CBYs were as follows:

CBY	COLA	CPIM
2006	3.50%	4.00%
2007	3.13%	4.01%
2008	2.40%	4.01%
2009	2.40%	4.01%
2010+	2.43%	4.09%

The model's resulting projections were analyzed by the DOL to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitive analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2007 and 2006, respectively, to the average pattern observed during the most current three CBYs, and (4) a comparison of the estimated liability per case in the 2007 projection, and 2006 respectively, to the average pattern for the projections of the most recent three years.

Other Disclosures

Other Federal Employment Benefits consist of accrued civilian severance pay.

Note 18. General Disclosures Related to the Statement of Net Cost

As of September 30		2007		2006
(Amounts in thousands)				
Intragovernmental Costs	$	1,130,000	$	1,344,517
Public Costs		7,485,546		10,349,745
Total Costs	$	8,615,546	$	11,694,262
Intragovernmental Earned Revenue	$	(2,175,993)	$	(4,702,252)
Public Earned Revenue		(876,394)		(551,480)
Total Earned Revenue	$	(3,052,387)	$	(5,253,732)
Net Cost of Operations	$	5,563,159	$	6,440,530

Other Information

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

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

USACE incurred no costs associated with acquiring, constructing, improving, reconstructing or renovating heritage assets.

Note 19. Disclosures Related to the Statement of Changes in Net Position

As of September 30	2007		2006	
(Amounts in thousands)	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance				
Changes in Accounting Standards (Note 1.V.)	$ (450,381)	$ (35,335)	$ 0	$ 0
Corrections of Errors (Notes 1.V & 25)	0	0	(740,928)	0
Total Prior Period Adjustments	$ (450,381)	$ (35,335)	$ (740,928)	$ 0
Imputed Financing				
Civilian CSRS/FERS Retirement	$ 86,981	$ 0	$ 92,355	$ 0
Civilian Health	169,002	0	139,010	0
Civilian Life Insurance	405	0	402	0
Judgment Fund	4,442	0	29,857	0
IntraEntity	1,550	0	1,550	0
Total Imputed Financing	$ 262,330	$ 0	$ 263,124	$ 0

Other Information

Prior Period Adjustments: Changes in Accounting Principles.

In accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, USACE implemented a new reporting procedure for FY 2007 to exclude transfer appropriation accounts for parent/child relationships. For further details, including the impact on USACE Changes in Accounting Principles line item, refer to footnote 1.V., "Prior Period Adjustments and Changes in Presentations."

See note 24 - "Restatements," for corrections of errors reported on the FY 2006 Statement of Changes in Net Position, and the impact these adjustments have on comparability of the financial statements.

For FY 2007, appropriations received on the Statement of Budgetary Resources (SBR) should not and did not agree with appropriations received on the Statement of Changes in Net Position (SCNP) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference is due to additional resources of $1.6 billion in appropriated trust, contributed, and special fund receipts included in Appropriations on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 20, "Statement of Budgetary Resources," for additional disclosures and details.

In FY 2006, appropriations received on the SBR should not and did not agree with appropriations received on the SCNP due to differences between proprietary and budgetary accounting concepts and reporting requirements. Appropriated trust, contributed, and special fund receipts in the amount of $1.5 billion are included in appropriations on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 20, "Disclosures Related to Statement of Budgetary Resources," for additional disclosures and details.

In the SCNP, all offsetting balances (i.e., transfers-in and transfers-out, revenues and expenses) for intradepartment activity between earmarked and other (nonearmarked) funds are reported on the same lines. This activity is reported in the eliminations column, which appears to contain a zero balance; however, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

Cumulative Results of Operations - Earmarked Funds ending balance on the SCNP should not and does not agree with the Cumulative Results of Operations - Earmarked Funds reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations, whereas Cumulative Results of Operations balance for earmarked and other funds on the Statement of Changes in Net Position are presented before eliminations.

Note 20. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2007	2006
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 3,907,831	$ 3,449,748

Other Information

Category A apportionments distribute budgetary resources by fiscal quarter. Category B apportionments distribute budgetary resources by activity, project, object or a combination of these categories. Exempt budgetary resources are not subject to apportionment because they are not appropriated funds. Funding sources for exempt category comes from sources outside the Federal Government.

For FY 2007, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the Statement of Budgetary Resources (SBR) includes: $7.2 billion for direct obligations; $37.9 million for direct obligations exempt from apportionment; and $8.4 billion for reimbursable obligations. The USACE did not report any reimbursable obligations exempt from apportionment. The USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

For FY 2006, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the SBR includes: $7.2 billion for direct; $35.5 million for obligations exempt from apportionment; $11.5 billion for reimbursable obligations; and $88.0 thousand for reimbursable obligations exempt from apportionment. The USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

Intraentity transactions have not been eliminated because the statements are presented as combined.

Permanent Indefinite Appropriations - The USACE receives receipts from hydraulic mining in California; leases of land acquired for flood control, navigation and allied purposes; and licenses under the Federal Power Act for improvements of navigable water including maintenance and operation of dams. These funds are available for expenditure.

There are no legal arrangements that affect the use of unobligated balances of budget authority.

There are differences between amounts reported on the SBR and the SF133, Report on Budget Execution (SF133). Treasury account symbol 96X6094 (Advances from the District of Columbia) is not included in the SF133. This money is not from appropriated funds and is not included in the Office of Management and Budget's data. The USACE does include this appropriation in the SBR.

The President's Budget with actual figures for FY 2007 has not yet been published. The FY 2009 President's Budget will include actual figures for FY 2007 reporting. The FY 2009 President's Budget can be found at: *http://www.whitehoust.gov/omb*, early in FY 2008. The following chart is a reconciliation of the FY 2008 President's Budget actual figures for FY 2006 to FY 2006 Statement of Budgetary Resources, as required by the Office and Management Budget (OMB) Circular A-136, paragraph 11.4.10.34.

Department of Defense
U.S. Army Corps of Engineers - Civil Works
Reconciliation of 2006 Year End Statement of Budgetary Resources to 2008 President's Budget

(in millions of dollars)

	Budgetary Resources Line 23.90	Obligations Incurred Line 23.95	Offsetting Receipts Line 02.99	Net Outlays Line 90.00	Explanation for Reconciling Differences
FY 2006 SBR	27,771	18,403	1,907	5,534	
Reconciling Difference	(48)	(36)		7	The SBR includes Treasury symbol 96X6094 for advances from the District of Columbia for work on the Washington Aqueduct. It is not included in the President's Budget since these are not appropriated funds.
Reconciling Difference	43	43			Transfer funds are not included in OMB's data. Prior to 2nd Quarter FY 2006, USACE recorded transfer funds in the financial statements. Per OMB Circular A-136, the parent agency should report the budgetary activity for allocation transfers. The child, USACE, shall report the activity relating to the allocation in all of its financial statements, except the SBR. Beginning 2nd Quarter FY 2006, adjustments were made to zero out the balances in the budgetary accounts imported from the CEFMS trial balances except for the amount needed in SGL 4175 to close out SGL 4201. There was residual activity on the SBR from beginning balances in undelivered orders, delivered orders-unpaid, and allocations to be transferred.
Reconciling Difference				1,907	The SBR reduces net outlays by the amount of distributed offsetting receipts. The President's Budget Line Item 90.00 does not.
Reconciling Difference			(75)		General funds suspense accounts are included as distributed offsetting receipts in accordance with Defense, Finance, and Accounting Service guidance. It is not included in the President's Budget amount.
Reconciling Difference	(5)				Appropriation 96X3123 includes budget authority from the Department of Energy. It is not included in the President's Budget.
Reconciling Difference			10		The President's Budget includes payment from the general fund, South Dakota Terrestrial Wildlife Habitat Restoration trust fund. The SBR does not include this.
Reconciling Difference			24		The Bureau of Public Debt reports interest on investments on the accrual basis. This includes interest collected, premium paid, and accrued interest purchased. The President's Budget includes the accrual amount. The SBR includes only the actual interest and tax revenue.
Reconciling Difference			8		Per Treasury Financial Manual, Federal Account Symbols and Titles, receipt account 96R5125 is not a distributed offsetting receipt account and is not included in the SBR as a distributed offsetting receipt. It is included in the President's Budget amount.
Total	27,761	18,410	1,874	7,448	
FY 2008 President's Budget	27,760	18,409	1,873	7,448	
Difference	(1)	(1)	(1)	0	Due to rounding.

Note 21. Reconciliation of Net Cost of Operations (Proprietary) to Budget (formerly the Statement of Financing)

As of September 30	2007	2006
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 15,718,293	$ 18,744,186
Less: Spending authority from offsetting collections and recoveries	(8,603,750)	(10,819,179)
Obligations net of offsetting collections and recoveries	$ 7,114,543	$ 7,925,007
Less: Offsetting receipts	(521,925)	(502,276)
Net obligations	$ 6,592,618	$ 7,422,731
Other Resources:		
Donations and forfeitures of property	11,105	19,888
Transfers in/out without reimbursement	23,539	186
Imputed financing from costs absorbed by others	262,330	263,124
Net other resources used to finance activities	$ 296,974	$ 283,198
Total resources used to finance activities	$ 6,889,592	$ 7,705,929
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders	$ (510,658)	$ (1,030,724)
Unfilled Customer Orders	(512,057)	(1,043,830)
Resources that fund expenses recognized in prior periods	(20,467)	(23,032)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	521,925	502,276
Resources that finance the acquisition of assets	(13,473)	(7,078)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget	(10,000)	(10,000)
Other	(34,644)	(114,224)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (579,374)	$ (1,726,612)
Total Resources Used to Finance the Net Cost of Operations	$ 6,310,218	$ 5,959,317
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in environmental and disposal liability	14,069	127,880
Increase in exchange revenue receivable from the public	(6,059)	(16,838)
Other	38,498	85,993
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 46,508	$ 197,035
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 506,102	$ 639,153
Revaluation of assets or liabilities	396,756	(269,050)
Other		
Cost of Goods Sold	2,025	743
Operating Material and Supplies Used	254	(23,359)
Other	(1,090,483)	(83,309)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ (608,306)	$ 264,178
Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ (561,798)	$ 461,213
Net Cost of Operations	$ 5,563,159	$ 6,440,530

Other Information

The following note schedule lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

- Obligations Incurred
- Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Composition of Other Resources – Other, and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations: Other – includes asset donations and the net amount of assets transferred to USACE from other government agencies.

Composition of Components Requiring or Generating Resources in Future Periods: Other - includes current year Judgment Fund Contract Disputes Act (CDA) claims and current year unfunded expense for the Federal Employees Compensation Act (FECA) actuarial liability.

Composition of Components not Requiring or Generating Resources: Other - includes cost capitalization offset expense. The cost capitalization offset account provides a mechanism to offset all direct costs in the expense accounts when those costs are subsequently capitalized into an in-process account.

Note 22. Earmarked Funds

As of September 30	FY 2007				
BALANCE SHEET					
($ in thousands)	Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 9,172	$ 562,877	$ 89,257	$ 0	$ 661,306
Investments	0	0	4,038,353	0	4,038,353
Accounts and Interest Receivable	1,858	0	476,546	0	478,404
Plant, Property, and Equipment	1,041	28,770	1,214,608	0	1,244,419
Total Assets	$ 12,071	$ 591,647	$ 5,818,764	$ 0	$ 6,422,482
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	1,682	18,771	91,428	(267)	111,614
Total Liabilities	$ 1,682	$ 18,771	$ 91,428	$ (267)	$ 111,614
Cumulative Results of Operations	10,389	572,875	5,727,337	(181,049)	6,129,552
Total Liabilities and Net Position	$ 12,071	$ 591,646	$ 5,818,765	$ (181,316)	$ 6,241,166
STATEMENT OF NET COST					
Program Costs	$ 13,543	$ 320,184	$ 992,618	$ (32,111)	$ 1,294,234
Less Earned Revenue	0	(61)	0	57	(4)
Net Program Costs	$ 13,543	$ 320,123	$ 992,618	$ (32,054)	$ 1,294,230
Net Cost of Operations	$ 13,543	$ 320,123	$ 992,618	$ (32,054)	$ 1,294,230
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 7,176	$ 503,202	$ 4,870,287	$ 0	$ 5,380,665
Net Cost of Operations	13,543	320,123	992,618	(32,054)	1,294,230
Budgetary Financing Sources	16,756	394,770	1,588,549	(213,103)	1,786,972
Other Financing Sources	0	(4,973)	261,118	0	256,145
Change in Net Position	$ 3,213	$ 69,674	$ 857,049	$ (181,049)	$ 748,887
Net Position End of Period	$ 10,389	$ 572,876	$ 5,727,336	$ (181,049)	$ 6,129,552

As of September 30	FY 2006				
BALANCE SHEET					
($ in thousands)	Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 5,287	$ 504,200	$ 93,727	$ 0	$ 603,213
Investments	0	0	3,571,456	0	3,571,456
Accounts and Interest Receivable	2,099	1,529	419,028	0	422,656
Plant, Property and Equipment	1,092	12,230	828,387	0	841,708
Total Assets	$ 8,478	$ 517,959	$ 4,912,598	$ 0	$ 5,439,033
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	1,301	14,757	42,310	(138)	58,230
Total Liabilities	$ 1,301	$ 14,757	$ 42,310	$ (138)	$ 58,230
Cumulative Results of Operations	7,176	503,202	4,870,287	207,476	5,588,141
Total Liabilities and Net Position	$ 8,477	$ 517,959	$ 4,912,597	$ 207,338	$ 5,646,371
STATEMENT OF NET COST					
Program Costs	$ 9,198	$ 306,934	$ 799,790	$ (28,974)	$ 1,086,948
Less Earned Revenue	0	(253)	(17)	253	(17)
Net Program Costs	$ 9,198	$ 306,681	$ 799,773	$ (28,721)	$ 1,086,931
Net Cost of Operations	$ 9,198	$ 306,681	$ 799,773	$ (28,721)	$ 1,086,931
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 2,245	$ 454,418	$ 4,324,881	$ 0	$ 4,781,544
Net Cost of Operations	9,198	306,681	799,772	(28,721)	1,086,931
Budgetary Financing Sources	14,528	367,234	1,468,281	178,755	2,028,799
Other Financing Sources	(399)	(11,769)	(123,103)	0	(135,271)
Change in Net Position	$ 4,931	$ 48,784	$ 545,406	$ 207,476	$ 806,597
Net Position End of Period	$ 7,176	$ 503,202	$ 4,870,287	$ 207,476	$ 5,588.141

Other Disclosures

All intragovernmental activity within USACE between earmarked and nonearmarked funds has been eliminated from the consolidated total column, which causes assets to not equal liabilities and net position.

There has been no change in legislation during or subsequent to the reporting periods and before the issuance of the financial statements that significantly changes the purpose of these funds or that redirects a material portion of the accumulated balances.

The USACE has the following Earmarked Funds as of September 30, 2006 and 2007:

Special Funds

Special Recreation Use Fees, Title 16 United States Code (USC) 4601-6a, granted USACE the authority to charge and collect fair and equitable Special Recreation Use Fees at recreation facilities and campgrounds located at lakes or reservoirs under the jurisdiction of USACE. Types of allowable fees include daily use fees, admission fees, recreational fees annual pass fees, and other permit type fees. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is to maintain and operate the recreation and camping facilities.

Hydraulic Mining in California, Debris, Title 33 USC 683, states that those operating hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission shall pay a tax as determined by the Federal Energy Regulatory Commission (FERC). The tax is paid annually on a date fixed by FERC. Taxes imposed under this code are collected and then expended under the supervision of USACE and the direction of the Department of the Army. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is for repayment of funds advanced by the Federal Government or other agencies for construction, restraining works, settling reservoirs and maintenance.

Payments to States, Flood Control Act of 1954, Title 33 USC 701c-3, established that 75% of all funds received and deposited from the leasing of lands acquired by the U.S. for flood control, navigation and allied purposes, including the development of hydroelectric power, shall be returned to the state in which the property is located. The USACE collects lease receipts into a receipt account. The revenue is received from the public and is an inflow of resources to the government. Funds are appropriated in the amount of 75% of the receipts in the following fiscal year and disbursed to the states. The funds may be expended by the states for the benefit of public schools and public roads of the county, or counties, in which such property is situated, or for defraying any of the expense of county government.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters, Title 16 USC 803(f), 810, states that whenever a reservoir or other improvement is constructed by the U.S., the Federal Power Commission, now known as FERC, shall assess charges against any licensee directly benefited, and any amount so assessed shall be paid into the U.S. Treasury. The title further states that all charges arising from other licenses, except those charges established by FERC for purpose of administrative reimbursement, shall be paid to the U.S. Treasury from which specific allocations will be made. From the specific allocations, 50% of charges from all other licenses is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army (Secretary) for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Nonfederal Use of Disposal Facilities (for dredged material) was established by Title 33 USC 2326a - This title provides that the Secretary may permit the use of any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. The Secretary may impose fees to recover capital, operation and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to the Secretary, and shall be used by the Secretary, for the operation and maintenance of the disposal facility from which the fees were collected. The revenue is received from the public and is an inflow of resources to the government.

Special funds utilize both receipt and expenditure accounts in accounting for and reporting the fund.

Contributed Funds

Rivers and Harbors Contributed and Advance Funds, authorized by Title 33 USC 701h, 702f, and 703, establishes funding to construct, improve and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc., in the course of flood control and river/harbor maintenance. Whenever any state or political subdivision thereof shall offer to advance funds for a flood control project duly adopted and authorized by law, the Secretary may at his discretion, receive such funds and expend the same in the immediate prosecution of such work. Advances are from the public and are inflows of resources to the government. This fund utilizes both receipt and expenditure accounts in accounting for and reporting the fund.

Trust Funds

South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund was established by Public Law 105-277, Sec. 603. Yearly transfers are made from the general fund of the U.S. Treasury to the trust fund for investment purposes. Investment activity is managed by the U.S. Treasury, Bureau of Public Debt (BPD). When the fund reaches the aggregate amount of $108.0 million, withdrawals may be made by USACE for payment to the state of South Dakota. The state shall use the payments to fund the annually scheduled work for wildlife habitat restoration. This fund utilizes both receipt and expenditure accounts in accounting for and reporting the fund.

Coastal Wetlands Restoration Trust Fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to USACE, along with the Environmental Protection Agency and the Fish and Wildlife Service, to work with the state of Louisiana to develop, review, evaluate and approve a plan that is proposed to achieve a goal of "no net loss of wetlands" in coastal Louisiana. The USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (IWTF) is authorized by Title 26 USC 9506. The title made IWTF available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections into the trust fund are from excise taxes on fuel used in commercial transportation on inland waterways. The revenue is received from the public and is an inflow of resources to the government. The collections are invested and investment activity is managed by the BPD. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Harbor Maintenance Trust Fund (HMTF) was established by Title XIV of the Water Resources Development Act (the Act) of 1986, Public Law 99-662. The HMTF is authorized to recover 100% of USACE eligible operation and maintenance (O&M) expenditures for the maintenance of commercial navigation in harbors and channels, as well as 100% of the O&M cost of St. Lawrence Seaway by the St. Lawrence Seaway Development Corporation. As provided in the Act, amounts in HMTF shall be available for making expenditures to carry out the functions specified in the Act and for the payment of all expenses of administration incurred by the U.S. Treasury, USACE and the Department of Commerce. Collections are made into the trust fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movements of cargo between domestic ports. The collections are invested and investment activity is managed by BPD. The revenue is received from the public and is an inflow of resources to the government. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Note 23. Other Disclosures

The USACE has no assets under capital lease.

Operating Leases

Future GSA rental lease payments due ($ in thousands):

Fiscal Year	Building Space
2008	$70,575
2009	$72,692
2010	$74,873
2011	$77,119
2012	$79,432
Total Future Lease Payments	$374,691

Note 24. Restatements

The fiscal year 2007 and 2006 financial statements, presented herein, are restated to present USACE's financial position and operations in conformity with generally accepted accounting principles (GAAP), and supersede the financial statements originally issued in November 2007 and 2006 that were not in conformity with GAAP and which should not be relied upon by financial statement users.

The previously issued financial statements were adjusted to correct a series of misstatements – including valuation errors in assets, completeness and valuation errors in liabilities and the offsetting impact to revenues and expenses, as well as budgetary reclassifications and missing disclosures included in Office of Management and Budget form and content guidance. In addition, FY 2006 opening balances were adjusted to correct similar misstatements related to prior year financial statements.

The following table summarizes the effects of management's adjustments to correct errors in the previously issued fiscal year 2007 and 2006 financial statements.

Restatements of fiscal year 2007 balances *($ in Thousands)*	As Originally Reported	As Restated	Difference
Consolidated Balance Sheet:			**Increase/ (Decrease)**
Accounts Receivable - Public	$ 1,657,863	$ 1,644,574	$ (13,289)
General Property, Plant and Equipment, Net	26,671,291	26,734,595	63,304
Total Assets (This is the total for all assets line from Balance Sheet)	$ 44,529,666	$ 44,579,681	$ 50,015
Accounts Payable - Intragovernmental	131,567	128,411	(3,156)
Other Liabilities - Intragovernmental	1,887,812	1,874,523	(13,289)
Accounts Payable	594,790	839,715	244,925
Environmental and Disposal Liabilities	626,773	656,123	29,350
Other Liabilities	660,946	588,926	(72,020)
Total Liabilities (This is the total for all liabilities line from Balance Sheet)	$ 4,166,692	$ 4,352,502	$ 185,810
Unexpended Appropriations - Other Funds	8,578,322	8,336,552	(241,770)
Cumulative Results of Operations - Other Funds	25,655,100	25,761,077	105,977
Total Net Position (This is the total for all Net Position Line from Balance Sheet)	$ 40,362,974	$ 40,227,182	$ (135,793)
Consolidated Statement of Net Cost:			
Gross Costs	$ 9,230,379	$ 8,615,546	$ (614,833)
Earned Revenue	(2,739,303)	(3,052,387)	(313,084)
Net Cost of Operations	$ 6,491,076	$ 5,563,159	$ (927,917)
Consolidated Statement of Changes in Net Position:			
Cumulative Results of Operations			
Beginning Balance	$ 31,647,065	$ 30,955,380	$ (691,685)
Appropriations Used	4,695,091	4,540,018	(155,073)
Imputed Financing from costs absorbed by others	237,513	262,330	24,817
Net Cost of Operations	6,491,076	5,563,159	(927,917)
Total Ending Cumulative Results of Operations (Total from net change cumulative results of operation line of Consolidated Statement of Changes in Net Position and therefore will not total the above lines)	$ 31,784,652	$ 31,890,628	$ 105,976
Unexpended Appropriations			
Beginning Balance	7,443,696	7,046,853	(396,843)
Appropriations Used	(4,695,091)	(4,540,018)	(155,073)
Total Ending Unexpended Appropriations (Total from Unexpended Appropriations line from Consolidated Statement of Changes in Net Position)	$ 8,578,322	$ 8,336,552	$ (241,770)
Combined Statement of Budgetary Resources:			
Unobligated Balance, Brought Forward, Oct 1	$ 9,368,272	$ 9,445,339	$ 77,067
Recoveries of Prior Year Unpaid Obligations	0	491,474	491,474
Spending Authority from Offsetting Collections - Earned - Collected	10,401,273	10,417,319	16,046
Spending Authority from Offsetting Collections - Earned - Change in Receivable from Federal Sources	(1,504,481)	(1,792,986)	288,505

Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Advance Received	(4,115)	(20,162)	16,047
Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Without Advance from Federal Sources	(780,400)	(491,895)	(288,505)
Total Budgetary Resources (Total from Budgetary Resources line of Combined Statement of Budgetary Resources)	$ 25,051,979	$ 25,620,519	$ 568,540
Obligations Incurred - Direct	6,924,552	7,281,595	357,043
Obligations Incurred - Reimbursable	8,479,195	8,436,698	(42,497)
Unobligated balance - Exempt from Apportionment	895,064	937,561	42,497
Total Status of Budgetary Resources (Total from Combined Statement of Budgetary Resources and therefore will not total above lines and will not total variances from above lines)	$ 25,051,979	$ 25,620,519	$ 568,540
Change in Obligated balance:			
Unpaid obligations, brought forward Oct 1	5,478,111	5,401,044	(77,067)
Total unpaid obligated balance	(943,027)	(1,020,094)	(77,067)
Obligations incurred, net	15,403,747	15,718,293	314,546
Obligated balance, end of period Unpaid Obligations	6,045,644	5,791,649	(253,995)
Total, unpaid obligated balance, net, end of period	1,909,386	1,655,391	(253,995)
SUM TOTAL POSITIVE AND NEGATIVE OF MAJOR LINE ITEMS FROM ABOVE	$ 162,874,747	$ 162,225,614	$ (649,133)

Restatements of fiscal year 2006 balances *($ in Thousands)*	As Originally Reported	As Restated	Difference
Consolidated Balance Sheet:			**Increase/ (Decrease)**
Accounts Receivable - Intragovernmental	$ 2,407,555	$ 2,696,061	$ 288,506
Accounts Receivable - Public	1,773,773	1,641,432	(132,341)
General Property, Plant and Equipment, Net	26,821,961	26,289,495	(532,466)
Other Assets - Public	440,839	0	(440,839)
Total Assets (This is the total for all assets line from Balance Sheet)	$ 43,285,588	$ 42,468,446	$ (817,142)
Accounts Payable - Intragovernmental	93,841	133,029	39,188
Other Liabilities - Intragovernmental	1,987,573	1,855,231	(132,342)
Accounts Payable - Public	442,199	862,035	419,836
Environmental and Disposal Liabilities	653,315	657,497	4,182
Other Liabilities - Public	753,399	693,922	(59,477)
Total Liabilities (This is the total for all liabilities line from Balance Sheet)	$ 4,194,826	$ 4,466,213	$ 271,387
Unexpended Appropriations - Other Funds	7,443,696	7,046,853	(396,843)
Cumulative Results of Operations - Other Funds	26,058,925	25,367,239	(691,686)
Total Net Position	$ 39,090,762	$ 38,002,233	$ (1,088,529)
Consolidated Statement of Net Cost:			
Gross Costs	$ 11,196,356	$ 11,694,262	$ 497,906
Earned Revenue	(5,104,928)	(5,253,732)	(148,804)
Net Cost of Operations	$ 6,091,428	$ 6,440,530	$ 349,102

Consolidated Statement of Changes in Net Position:			
Cumulative Results of Operations			
Appropriations Used	$ 4,516,312	$ 4,913,155	$ 396,843
Prior Period Adjustment	0	(740,928)	(740,928)
Imputed Financing From Cost Absorbed by Others	261,624	263,124	1,500
Net Cost of Operations	6,091,428	6,440,530	349,102
Total Ending Cumulative Results of Operations	31,647,066	30,955,380	(691,686)
Unexpended Appropriations			
Appropriations Used	(4,516,312)	(4,913,155)	(396,843)
Total Ending Unexpended Appropriations (Total from Unexpended Appropriations line from Consolidated Statement of Changes in Net Position and will not total above lines and will not total variances from above lines)	$ 7,443,696	$ 7,046,853	$ (396,843)
Combined Statement of Budgetary Resources:			
Recoveries of Prior Year Unpaid Obligations	$ 0	$ 418,242	$ 418,242
Spending Authority from Offsetting Collections - Earned - Collected	9,407,099	9,465,576	58,477
Spending Authority from Offsetting Collections - Earned - Change in Receivable from Federal Sources	1,690,685	1,979,190	288,505
Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Advance Received	22,685	(35,792)	(58,477)
Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Without Advance from Federal Sources	(719,532)	(1,008,037)	(288,505)
Total Budgetary Resources (Total from Budgetary Resources line of Combined Statement of Budgetary Resources and will not total above lines)	$ 27,771,283	$ 28,189,525	$ 418,242
Obligations Incurred - Direct	6,902,331	7,243,506	341,175
Unobligated Balance - Apportioned	8,621,365	8,698,433	77,068
Total Status of Budgetary Resources (Total from Combined Statement of Budgetary Resources and will not total above lines)	$ 27,771,283	$ 28,189,525	$ 418,242
Distributed Offsetting Receipts	(1,906,618)	(502,276)	(1,404,342)
SUM TOTAL POSITIVE AND NEGATIVE OF MAJOR LINE ITEMS FROM ABOVE	$ 157,618,031	$ 157,066,904	$ (551,127)

Note 25. Prior Period Adjustments

Prior Period Adjustments

To fairly present the fiscal year 2006 Financial Statements, management made the Prior Period Adjustments (PPA) to the fiscal year 2006 Statement of Changes in Net Position in table below:

Account	Amount
Building & Structures	$ (467,955,133)
Beginning Balance Accounts Payable	$ 91,861,596
Land, Net	$ (197,676,742)
Construction in Progress	$ (40,510,994)
Other Services - Government - Non DoD	$ (32,362,309)
Other Services - Public	$ (351,827,385)
Revenue (FEMA)	$ 180,230,246
Unearned Revenue Advances - Public	$ 17,948,112
Change in Actuarial Liability	$ (240,002,000)
Depreciation, Amortization, and Depletion	$ 114,077,681
Total	$ (926,216,928)

The Building and Structures balance was reduced based on a lack of documentation to support the fiscal year 2006 beginning balance. This entry decreased General Property, Plant and Equipment (PP&E) reported on the Balance Sheet.

Expenses were over accrued in Accounts Payable at the end of FY 2005. Therefore, an adjustment was recorded to remove the over accrued expenses from FY 2005 and record them in FY 2006. This entry increased expenses in the Statement of Net Cost and reduced Net Position through the Prior Period Adjustment.

The beginning FY 2006 Land balance was overstated due to unsupported Land Administrative Costs that were included in the reported Land balance. An entry was made to reduce the Land balance for the unsupported amounts on the Balance Sheet.

The beginning balance for the Construction in Progress (CIP) account was overstated for amounts that should have been removed and recorded in the proper depreciable asset accounts. Therefore, the CIP balance was reduced and the depreciable asset accounts were correspondingly increased on the Balance Sheet.

Fiscal year 2005 expenses for Other Services - Government - Non DoD were understated for amounts which were not accrued at year-end. Therefore, current year expenses were overstated. An adjustment was made to reduce current year expenses on the Statement of Net Cost.

Fiscal year 2005 expenses for Other Services - Public were understated for amounts which were not accrued at year-end. Therefore, current year expenses were overstated. An adjustment was made to reduce current year expenses on the Statement of Net Cost.

Reimbursable Revenue was adjusted for amounts recorded in the current fiscal year which should have been recorded in the prior fiscal year. An adjustment was made to decrease current year revenue. This entry impacted the Statement of Net Cost.

The Unearned Revenue balance was decreased to account for rate errors noted in cost share transactions. This correction impacted each of the financial statements except for the Statement of Net Cost.

The fiscal year 2005 ending Actuarial Liability balance was recorded to properly account for the current year Change in Actuarial Liability reported on the FY 2006 Statement of Financing.

The Depreciation, Amortization and Depletion balances were adjusted to correct for retroactive changes of useful life estimates at the Rock Island, Portland and Galveston Districts. This correction impacted the Statement of Net Cost.

Each of these adjustments is included in the Prior Period Adjustment amount reported in the current year Statement of Changes in Net Position. The Prior Period Adjustments were recorded in the current year Statement of Changes in Net Position since the FY 2005 financial statements can not be opened, restated, and contained GAAP inconsistencies that can not be quantified. The FY 2005 balances have not been audited. Each of these adjustments has been audited as part of the FY 2006 financial statement audit.

Required Supplementary Stewardship Information (RSSI)

Federal Mission Property, Plant and Equipment
Yearly Investment in Federal Mission Property, Plant and Equipment

For Fiscal Year Ended September 30, 2007
(In Millions of Dollars)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY2003	FY2004	FY2005	FY2006	FY2007
1. Bank Stabilization Projects	nr	$74	$59	$67	$73
TOTAL:		$74	$59	$67	$73

Narrative Statement:

Investments in Federal Mission Property, Plant and Equipment refer to those expenses incurred by USACE for the protection of the riverbanks of the Mississippi River and other navigable waterways inside the continental United States. Stabilization and protection of the riverbanks are important to the flood control and navigation plans, serving to protect flood control features and to insure the desired alignment of the river's navigation channel. Stabilizing the riverbanks and channels provides an efficient navigation alignment, increases the flood-carrying capacity of the river, and or protection of the levees system to include the tributary basin improvements for major drainage. The process by which this is accomplished is by cutoffs (shortening the river and reducing flood heights), revetment (controlling the river's meandering), dikes (directing the flow), and improvement dredging (realigning the river/channel).

Notes:

1. The USACE does not have historical data for FY 2003, because FY 2004 was our first reporting of Federal Mission Property, Plant and Equipment in the Required Supplementary Stewardship Information section of the financial statements. (nr = Nonreporting)

2. After major floods in 1882, 1912, 1913 and 1927, the Flood Control Act of 1928 was signed that committed the Federal Government to a definite program of flood control. This legislation authorized the Mississippi River and Tributaries Project, the nation's first comprehensive flood control and navigation act.

3. Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal accounting standards requirements.

Nonfederal Physical Property
Yearly Investment in State and Local Governments

For Fiscal Year Ended September 30, 2007
(In Millions of Dollars)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY2003	FY2004	FY2005	FY2006	FY2007
Transferred Assets:					
1. Federal Mission Related	nr	$4,429	$1,324	$1,229	$1,028
Funded Assets:					
2. Federal Mission Related	nr	$0	$0	$0	$0
Total:		$4,429	$1,324	$1,229	$1,028

Narrative Statement:

Investments in Nonfederal Property refers to those expenses incurred by USACE for the purchase, construction or major renovation of physical property owned by State and local governments, including major additions and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. The authority to enter into cost sharing agreements with nonfederal sponsors is governed under numerous Water Resources Development Acts starting with the Act of 1992.

Notes:

1. The USACE does not have historical data for FY 2003 because FY 2004 was our first reporting of Nonfederal Physical Property in the Required Supplementary Stewardship Information. The variance in the FY 2004 and FY 2005 amounts is due to the FY 2004 figure being a first report cumulative number and the FY 2005 number is for FY 2005 cost share. (nr = Nonreporting)

2. Under numerous authorities, USACE provides design, build and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation and water supply.

3. Investments values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal Accounting Standards requirements.

Required Supplementary Information (RSI)

Heritage Assets

For Fiscal Year Ended September 2007

(a)	(b)	(c)	(d)	(e)	(f)
Categories	Measurement Quantity	As of 10/1/06	Additions	Deletions	As of 9/30/07
Museums	Each	0			0
Monuments and Memorials	Each	0			0
Cemetaries	Sites	0			0
Archeological Sites	Sites	586			586
Buildings and Structures	Each	353			353
Major Collections	Each	0			0

Narrative Statement

1. **Dollar Amounts.** No asset dollar amounts are shown.

2. **Relevance to the USACE Mission.** On February 14, 1990, the Chief of Engineers and Commanding General of the U.S. Army Corps of Engineers, Lieutenant General Henry J. Hatch, issued *The Strategic Direction to Environmental Engineering.* General Hatch said, "… to meet our nation's and world's needs, an environmental ethic must be an integral part of how we conduct business . . . the environmental aspects of all we do must have equal standing among other aspects – not simply a 'consideration', but part of the 'go-no-go' test, along with economics and engineering."

3. **Stewardship Policy.** On 30 October 2003, Engineer Regulation (ER) 200-1-5, *Implementation of the USACE Environmental Operating Principles*, was issued. The ER states, in part, "…[T]he Environmental Operating Principles and associated doctrine highlight USACE's roles in, and responsibilities for, sustainability, preservation, stewardship and restoration of our Nation's . . . resources. These principles and associated doctrine are based on the premise that through the restoration and maintenance of environmental health and productivity, both economic development and social equity can be achieved."

4. **Heritage Asset Categories.**

   a. Based on the current definition provided for Monuments and Memorials, USACE does not administer any properties that meet the qualifying criteria.

   b. The latest listing (October 2, 2007) of the National Register of Historic Places Internet Database (www.cr.nps.gov/nr) has been reviewed. Heritage assets classified as Land are special land plots containing archaeological sites either listed on the National Register of Historic Places or eligible to be listed by the agency and the Keeper of the National Register. Cemeteries and Archeological Sites are archeological properties listed on, or eligible for, listing in the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the Continental United States, beginning with the Kennewick Man Discovery Site in Washington State, dating back approximately 10,000 years, to archeological remains of early European-American settlements, including Fort Independence in Georgia. The current National Register inventory for USACE includes 489 archeological properties determined to be eligible for listing and 97 archeological properties listed. This total of 586 archeological properties qualifying as Heritage Assets reflects no change from the previous quarterly report.

c. Buildings and Structures include a range of historic resources from a covered bridge in the Sacramento District to early farming structures in the Savannah District. It also includes some non-traditional structures such as a snag boat that operated on the Mississippi River. Again, the current National Register of Historic Places Internet Database was reviewed for USACE Heritage Assets in the Buildings and Structures category. There are 117 buildings and structures listed on the National Register and 236 more that have been determined to be eligible for listing. The total of 353 Heritage Assets in this category reflects no change from the previous quarterly report.

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts

As of 30 September 2007

(a)	(b)
Property Type/ Major Class	
1. Real Property	
A. Buildings	0
B. Structures	$1,062,358
2. Total	$1,062,358

Narrative Statement:

Deferred maintenance at Civil Works water resources projects operated and maintained by the USACE was determined through the budget development process by which operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. Those needs are based on inspections of project features, engineering analyses and historical experience.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

March 31, 2008

MEMORANDUM FOR THE CHIEF OF ENGINEERS, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the Fiscal Years 2007 and 2006 U.S. Army Corps of Engineers, Civil Works, Financial Statements (Report No. D-2008-076)

We are rescinding our reports dated November 8, 2007 and 2006, for the U.S. Army Corps of Engineers FY 2007 and FY 2006 Annual Financial Statements, respectively. Report Nos. D-2008-019 and D-2007-016 should not be relied on because material adjustments were made to the U.S. Army Corps of Engineers financial statements. We are reissuing the subject report to be published in the restated U.S. Army Corps of Engineers FY 2007 and FY 2006 Annual Financial Statements. This revised report includes our qualified opinions on the FY 2007 and FY 2006 financial statements. In addition, this revised report includes the required report on internal control and compliance with laws and regulations. Because our report is being issued to accompany the FY 2007 and FY 2006 U.S. Army Corps of Engineers Basic Financial Statements, this audit report should not be disseminated separately from those statements.

Based on the pervasive internal control weaknesses related to the U.S. Army Corps of Engineers financial reporting process, the significant amount of client involvement required in reviewing its financial records to satisfy the Memorandum of Agreement requirements, and the extensive effort needed to audit the basic financial statements, we have concerns whether the U.S. Army Corps of Engineers will be able to sustain the level of effort necessary to continue the extensive annual audit process currently performed. Without first correcting these material internal control weaknesses, U.S. Army Corps of Engineers management will be forced to repeat this considerable level of effort annually. Once these material internal control weaknesses are corrected, the audit will become more efficient and U.S. Army Corps of Engineers management will have more reliable financial information readily available for decision making.

We appreciate the courtesies extended to the audit staff. Please contact Ms. Lorin T. Pfeil at (703) 601-5945 or Mr. Dana E. Whiting at (703) 601-5901 if you have any questions.

Paul J. Granetto

Paul J. Granetto, CPA
Principal Assistant Inspector General
for Auditing

March 31, 2008

MEMORANDUM FOR THE CHIEF OF ENGINEERS, U.S. ARMY CORPS OF ENGINEERS

SUBJECT: Independent Auditor's Report on the Fiscal Years 2007 and 2006 U.S. Army Corps of Engineers, Civil Works, Financial Statements (Report No. D-2008-076)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Office of Inspector General to audit the accompanying U.S. Army Corps of Engineers, Civil Works, (USACE) Consolidated Balance Sheet as of September 30, 2007 and 2006, the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources for the fiscal years then ended.[1] The financial statements are the responsibility of USACE management. Our responsibility is to express an opinion on these financial statements based on our audits.[2] USACE is also responsible for establishing and maintaining effective internal control and for complying with laws and regulations. As part of our audits, we examined internal control over financial reporting and compliance with applicable laws, regulations, contracts, and grant agreements. In addition to our opinions on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our revised opinion on the financial statements and should be considered in assessing the results of our audits.

On November 8, 2007 and 2006, we issued disclaimers of opinion on the USACE FY 2007 and FY 2006 financial statements (Report Nos. D-2008-019 and D-2007-016), respectively, because of limitations on the scope of our audit work. Since that date, we have performed additional audit procedures that enabled us to form opinions on the USACE FY 2007 and FY 2006 financial statements. Therefore, we are rescinding our November 8, 2007 and 2006, disclaimers of opinion on the USACE FY 2007 and FY 2006 financial statements, and we are reissuing one combined report. In conjunction with this reissued opinion, we will notify the Office of Management and Budget, the Government Accountability Office, and the Office of the Secretary of Defense that Report Nos. D-2008-019 and D-2007-016 should not be relied on.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and the requirements of Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating

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[1] Beginning in FY 2007, Office of Management and Budget Circular A-136 required entities to present the Statement of Financing as a note. It is no longer considered a basic statement.

[2] The annual financial statements include the basic statements, Management Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information.

the overall financial statement presentation and assessing the internal control over financial reporting and compliance with laws and regulations. We believe that our audit provides a reasonable basis for our opinion.

The Department of Defense Office of Inspector General and USACE, with assistance from the Government Accountability Office and the Office of Under Secretary of Defense (Comptroller), developed and signed "Memorandum of Agreement, Support for Recorded Book Cost of General Property, Plant and Equipment Assets, U.S. Army Corps of Engineers, Civil Works" (Memorandum of Agreement), June 9, 2004, as modified on October 25, 2006. The Memorandum of Agreement established an alternative procedure for valuing assets that USACE management could use when historical cost data for the various components of the General Property, Plant, and Equipment line item were not available. Therefore, the Memorandum of Agreement is an alternative procedure for valuing assets under generally accepted accounting principles, and any departure from the Memorandum of Agreement constitutes a departure from generally accepted accounting principles. The Buildings and Other Structures component of the General Property, Plant, and Equipment line item constitutes a material amount (approximately 33 percent) of the Asset portion of the USACE FY 2007 and FY 2006 Balance Sheets.

Although our audit work performed in FY 2005 and FY 2004 identified numerous instances when USACE did not fully implement the alternative valuation procedures, in FY 2006 USACE asserted that it had taken appropriate corrective actions to correct these previously identified deficiencies. However, our additional audit work on the FY 2006 beginning balances of USACE Buildings and Other Structures to assess compliance with the Memorandum of Agreement criteria found deficiencies still existed indicating that USACE had not consistently implemented all criteria from the Memorandum of Agreement and had not complied with generally accepted accounting principles. Because USACE did not consistently comply with all aspects of the Memorandum of Agreement, uncertainty exists about whether the USACE FY 2006 beginning balance amount for the Buildings and Other Structures to the USACE FY 2006 Balance Sheet taken as a whole may be materially affected. We were unable to reasonably determine the effects of the departure from generally accepted accounting principles on the USACE FY 2007 and FY 2006 financial statements.

Deficiencies with the Buildings and Other Structures component of the General Property, Plant, and Equipment line item exist as a result of (1) inconsistent application of the criteria set forth in the Memorandum of Agreement, (2) continued, uncorrected material errors identified in previous audit work, and (3) newly identified material internal control weaknesses.

In our opinion, except for the effects, if any, of adjustments that may be needed to resolve matters identified in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of USACE as of September 30, 2007 and 2006, and the net cost of operations, changes in net position and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America and the requirements of the Office of Management and Budget Circular A-136, "Financial Reporting Requirements."

Matters of Emphasis

Restatement of FY 2007 and FY 2006 Financial Statements. We audited the current year amounts for the USACE FY 2007 financial statements and the beginning balance and current year amounts for the USACE FY 2006 financial statements. After we completed our audit, USACE management made $1.4 billion in prior period adjustments to the USACE FY 2006 financial statements, as stated in Footnote 24, "Restatements," to present fairly the financial statements. However, for comparative purposes, USACE did not apply these adjustments to previously issued financial statements. The Attachment discusses the various internal control deficiencies we identified that did not prevent or detect these prior period adjustments.

Consistency of FY 2007 and FY 2006 Financial Statements. As annotated in Footnote 1.V. to the USACE FY 2007 Financial Statements, "Prior Period Adjustments and Changes in Presentation," effective at the beginning of FY 2007, USACE changed its method of reporting allocation transfers pursuant to Office of Management and Budget Circular A-136 guidance. This change directly affects the comparability of the USACE FY 2007 and FY 2006 financial statements.

Controls over Other Accompanying Information. The Management Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information were not required in the basic financial statements but were required as supplementary information by the Federal Accounting Standards Advisory Board and Office of Management and Budget Circular No. A-136. The scope of our planned work included procedures in Office of Management and Budget Bulletin No. 07-04. However, we were not required to audit this information or express an opinion on it under Office of Management and Budget Bulletin No. 07-04. Accordingly, we do not express an opinion on this information. The Attachment describes control weaknesses and other conditions in further detail.

Summary of Internal Control

In planning our FY 2007 and FY 2006 audits, we considered USACE internal control over financial reporting and compliance with laws and regulations. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance, but our purpose was not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance with laws and regulations. However, five material weaknesses existed in the following areas.

- Entity-Wide Internal Controls
- General Property, Plant, and Equipment
- Accrual Accounting
- Contingent Liabilities
- Financial Report Preparation Using the Defense Departmental Reporting System

Material weaknesses are significant deficiencies resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

In addition, five significant deficiencies existed in the following areas.

- Financial Management Systems
- Corps of Engineers Financial Management System User Account Management Control
- Information Technology General Controls
- Assessment of Corps of Engineers Financial Management System against Office of Federal Financial Management Requirements.
- Other Accompanying Information Controls

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. Significant deficiencies result in more than a remote likelihood that a misstatement of an entity's financial statements that is more than inconsequential will not be prevented or detected. Our review of internal control would not necessarily disclose all significant deficiencies. See the Attachment for details on the significant deficiencies listed above.

Summary of Compliance with Laws and Regulations

As part of obtaining reasonable assurance whether the USACE FY 2007 and FY 2006 financial statements were free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and agreements, including those specified in Office of Management and Budget Bulletin No. 07-04. We did not determine, however, whether USACE complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion. However, we noted instances of noncompliance with the following laws and regulations.

- Antideficiency Act
- Debt Collection Improvement Act of 1996
- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996

See the Attachment for details on compliance with laws and regulations.

Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

Paul J. Granetto, CPA
Principal Assistant Inspector General
for Auditing

Attachment:
As stated

Report on Internal Control and Compliance with Laws and Regulations

Internal Control

Management is responsible for developing and maintaining effective internal control and for providing reasonable assurance over the reliability of financial reporting, complying with applicable laws and regulations, and safeguarding assets against misappropriation and abuse. Because USACE management asserted that the FY 2007 and FY 2006 financial statements were free of material error, we performed auditing procedures to determine whether the financial statements were fairly presented in all material respects. In planning our audit, we considered USACE internal control over financial reporting and compliance with laws and regulations to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance. The purpose of our audits was not to express an opinion on internal control or compliance with laws and regulations. Accordingly, we do not express such an opinion. However, we identified internal control deficiencies over financial reporting that are considered to be significant deficiencies, some of which are considered to be material weaknesses.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and the requirements of Office of Management and Budget Bulletin No. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and assessing the internal control over financial reporting and compliance with laws and regulations. We believe that our audits provide a reasonable basis for our opinions.

Our testing of USACE internal controls included those procedures in Office of Management and Budget Bulletin No. 07-04 that were designed to determine whether USACE internal control provides reasonable, but not absolute, assurance that:

- Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use, or disposition.

- Transactions are executed in accordance with laws governing the use of budget authority and with laws, regulations, and Government-wide policies identified in Appendix E of Office of Management and Budget Bulletin No. 07-04 that could have a direct and material effect on the consolidated and combined financial statements.

- Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Managers' Financial Integrity Act of 1982. Rather, we focused our internal control testing on controls over financial reporting and compliance with laws and regulations.

We reported our audit findings on the unreliability of the USACE control environment before the FY 2007 and FY 2006 audits. Our overall FY 2007 and FY 2006 audit methods emphasized substantive tests of details on account balances because USACE internal controls were determined to be unreliable. As a result of our audits, USACE management posted necessary adjusting entries to the USACE FY 2007 and FY 2006 financials statements to conform with generally accepted accounting principles and to address the internal control deficiencies.

Material Weaknesses.

During the audits, we identified the following five material weaknesses that USACE management did not report in its FY 2007 and FY 2006 Annual Statement of Assurance on Management Controls. USACE did not identify these material weaknesses in accordance with the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, Appendix A, "Management's Responsibility for Internal Control."

Entity-Wide Internal Controls. There are five integrated components of internal control: Control Environment, Risk Assessment, Monitoring, Information and Communication, and Control Activities. Taken together they provide management with reasonable assurance that USACE achieves its objectives related to effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reliability of financial reporting.

During the FY 2007 audit, we found inconsistencies in USACE entity-wide controls that caused material weaknesses and significant deficiencies. The following are examples of deficiencies in USACE Risk Assessment and Monitoring entity-wide controls.

- USACE annual processes of self-assessment, certification, and reporting on internal controls in accordance with the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, Appendix A did not effectively identify significant risks, including material weaknesses and significant deficiencies in internal controls.

- Existing USACE Risk Assessment and Monitoring internal controls did not adequately focus on financial management risks. Although USACE management performed a few risk-focused reviews, the existing Monitoring did not adequately focus on high-risk areas by risk category and by location, as would a robust Risk Assessment function.

- USACE management did not maintain an adequate structure for a Monitoring function linked to its Risk Assessment process. USACE internal review personnel responsible for performing reviews and inspections were stationed at USACE districts and performed reviews at the request of their local commander rather than as part of a centrally-coordinated plan matched to prioritized Corps-wide financial reporting risks.

- USACE districts and other field activities did not conduct sufficient followup procedures to verify that corrections were timely and effectively completed and sustained. Headquarters management did not have assurance that all locations consistently adhered to defined accounting policies, processes, and control procedures, and that known Material Weaknesses were being resolved. Although USACE management has begun developing a corrective action plan related to findings stemming from the FY 2006 audit, USACE has not dedicated sufficient resources to resolve our prior-year findings. Furthermore, USACE management did not have a formal process and structure to resolve findings under the Audit Committee's supervision.

- Specific accounting policies and control procedures did not exist to ensure transactions were consistently accounted for and processed in accordance with generally accepted accounting principles. In addition, documentation was missing or was inconsistent as support for key accounting judgments.

The examples below demonstrate how inconsistencies in USACE entity-wide controls resulted in accounting policies, processes, and control procedures that are insufficiently designed and ineffectively implemented to reduce USACE financial reporting risks to an appropriate level. Inadequate controls increase the likelihood that:

- Errors not prevented, detected, or corrected timely by USACE management could result in misstatements in the financial statements.

- Fraudulent activities may not be prevented or detected by USACE management in a timely manner.

- Noncompliance with applicable laws and regulations may occur without a timely response from USACE management to inconsistencies in USACE entity-wide controls.

- USACE may not achieve its operational goals for efficiency and effectiveness.

- USACE may be unprepared to effect organizational changes and take advantage of opportunities arising from changing conditions.

Because of USACE weak entity-wide controls, USACE management adjusted financial reporting errors during annual audits rather than having adequate internal controls in place to prevent and detect these errors in the normal course of business. In addition, USACE management was unable to file audited annual financial statements in compliance with generally accepted accounting principles to meet the Office of Management and Budget deadline.

General Property, Plant, and Equipment. The USACE General Property, Plant, and Equipment line item is the single largest category of assets on the USACE FY 2007 and FY 2006 financial statements. Its main components are Buildings and Other Structures, Land, Construction-in-Progress, and Equipment. Effective control and accountability over General Property, Plant, and Equipment assets are, therefore, a key USACE management imperative. Material weaknesses in USACE internal controls for General Property, Plant, and Equipment significantly affected the financial statements.

- **Implementation of Corrective Actions.** USACE management did not sufficiently verify that corrective actions were taken for the audit findings that pre-dated USACE management's assertion of readiness for audit. Although USACE management implemented certain responsive actions to prior audit findings by creating internal policy and guidance, the current findings indicate that these actions were insufficient. Specifically, the districts did not consistently comply with management direction. The USACE level of monitoring and oversight was not sufficient to ensure that all USACE districts properly resolved deficiencies. Our prior audits addressed the following deficiencies, previously identified as material weaknesses, which USACE management has not resolved.

- **Buildings, Structures, and Facilities.** Deficiencies occurred in useful lives, support for asset values, placed-in-service dates, asset classification (including bank stabilization[1]), physical existence, and capital lease recording. We also identified a systemic weakness in adjustments to useful lives in the Corps of Engineers Financial Management System. Specifically, the Corps of Engineers Financial Management System did not always distribute depreciation accurately across the life of buildings and structures, which affected the book value, accumulated depreciation, and the reported balance.

- **Land.** Deficiencies occurred in land costs originating in the Corps of Engineers Management Information System and in classifying reservoir costs.

- **Construction-in-Progress.** Deficiencies occurred in the timely transfer of completed assets, the capitalization of expense-type events, non-Federal cost share projects, prior Construction-in-Progress errors, and negative Construction-in-Progress.

- **Equipment.** Deficiencies occurred in the lack of adequate documentation to support equipment values.

- **Policies, Procedures, and Documentation, and Compliance with Standards.** General Property, Plant, and Equipment related control policies and procedures were ineffective or did not exist. Documentation did not sufficiently demonstrate the effective function of the existing policies and procedures. During the FY 2007 audit, we identified the following deficiencies.

  - Sufficient policies and procedures did not exist to ensure that construction assets within the Construction-in-Progress account were appropriately valued and placed-in-service within 30 days of an asset being available for use. These insufficient policies and procedures also did not prevent an asset from being placed in service before it was ready for its intended use.

  - Documentation did not exist to support the current year investments in, and disposals of, certain General Property, Plant, and Equipment assets.

  - Miscellaneous costs incurred after constructed assets had been placed in service were accounted for differently among individual USACE districts.

  - Documentation did not exist to support the determination for each Work Item[2] as either capital or expense.

  - General and administrative and fish mitigation costs were capitalized by USACE districts instead of expensed in the Construction-in-Progress account.

  - Assets were not consistently evaluated and classified as real or personal property.

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[1] Bank stabilization involves fortifying the banks of existing waterways with rocks or concrete mats to maintain existing waterways and does not result in the construction of capital assets. Bank stabilization costs should be expensed when incurred.

[2] Work Items are work assignments established within USACE accounting system that are used to fund and accumulate costs for any project having a separate or unique identity.

- Asset useful lives were not applied consistently by USACE districts for similar assets.

We identified the following deficiencies during the FY 2006 audit.

- Lack of policies and procedures for centralized monitoring over USACE district preparation and review of reconciliation reports.

- Gaps in policies and procedures designed to ensure completeness and accuracy of the accounting data.

- Lack of systematic monitoring over inventory review processes that would ensure that assets had been inventoried regularly and comprehensively.

- Limited valuation of Land assets to the "Parent" level[3] only.

- Insufficient policies, procedures, and documentation to review automated calculations for depreciation expense and accumulated depreciation.

USACE also did not have established controls for management review of modifications to the value of assets, placed-in-service dates, and useful lives variables that affect the calculation of depreciation expense and accumulated depreciation.

USACE districts did not consistently retain documentation that supported management's financial reporting assertions of Existence/Occurrence, Rights/Obligations, Valuation/Allocation, and Completeness, and USACE districts did not consistently adhere to accounting policies and procedures.

- **Reconciliation Controls.** Properly performed, reviewed, and documented reconciliations are key activities in any effective internal control environment. Reconciliations are necessary for management to ensure that internal data are consistent, complete, and accurate while accountability information is processed and distributed among operational systems, real or personnel property accountability systems, and financial accounting systems. USACE management did not:

  - Perform reconciliations among the Corps of Engineers Financial Management System, the Real Estate Management Information System, and the Automated Personal Property Management System. .

  - Consistently prepare and document the reconciliation reports.

  - Document oversight over the reconciliation process to ensure that reconciliations were performed correctly and timely.

  - Put controls in place for preparers and reviewers to sign reconciliations.

  - Establish a policy requiring reconciliations to be retained as documentation of performing the control procedure.

[3] "Parent" level land tracts are an aggregation of numerous component land tracts. USACE uses the term "tract" in land acquisitions to identify each separate parcel of land requiring ownership documentation, usually a title.

- **Segregation of Duties.** Control weaknesses existed for segregation of duties controls within the Corps of Engineers Financial Management System. USACE Real Estate personnel could record and authorize General Property, Plant, and Equipment transactions. Personnel who performed periodic inventories of real and personal property were designated "Hand Receipt Holders" of the assets they were counting and certifying. In addition, USACE staff accountants were able to prepare and enter adjusting journal entries into Corps of Engineers Financial Management System without supervisory review or documented support.

Accrual Accounting. Accrual accounting is a key concept in generally accepted accounting principles and requires recognizing expenses when incurred and revenues when earned, not when paid and collected, respectively. USACE did not implement sufficient corrective actions for previously identified material weaknesses relating to Accounts Payable. Specifically, USACE did not properly record payables, properly review aged payables, and record payables in the proper accounting period, and was unable to provide supporting documentation in a timely manner to substantiate the recorded payable.

In FY 2007, USACE did not have adequate internal control procedures for Accounts Payable and Undelivered Orders balances. Our FY 2007 year-end audit work determined that improper accrual estimates were still prevalent throughout USACE. Because of inadequate review procedures and monitoring activities, USACE management did not identify and correct the improper accrual estimates in a timely manner. Our testing indicated:

- An adequate supervisory review process did not exist to ensure that costs associated with open obligations were properly accrued as required by Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities."

- Justifications for accruals, and their basis for the related decisions and estimated calculations, were missing, insufficient to support the recorded estimates, or not re-performed because the supporting documentation could not be tied to the specific sample.

- USACE expenses paid in October, November, and December 2007 for obligations incurred prior to September 30 were not properly accrued during FY 2007.

Deficient internal controls over recording payables and related expenses and other costs result in inaccurate financial reporting. In addition, interim financial information may be inaccurate and unreliable for decision making.

In FY 2006, USACE Accounts Payable and Expenses for Federal and non-Federal entities contained understatements and overstatements.

- **Understatement of Accounts Payable and Expenses.** Understatements existed in balances for liabilities associated with goods and services provided by both public and intragovernmental vendors. Of these understatements, approximately 70 percent applied to payments made to public vendors, which were funded through reimbursements from the Federal Emergency Management Agency. USACE management did not record accruals for these projects to match liabilities and expenses to the period in which they were provided. Management recognized expenses when it paid vendors for goods and services rather than when it received the goods and services. Unrecorded liability transactions not related to the Federal Emergency Management Agency funded transactions were also not recorded in the proper accounting period. Specifically, control procedures did not ensure expense transactions were recorded in the proper period as required by Statement of Federal Financial Accounting Standards No. 1. Finally, USACE management only recorded and recognized goods and services received from other Federal agencies when an Intra-Governmental Payment and Collection transaction occurred. Statement of Federal Financial Accounting Standards No. 1 requires these transactions to be recorded when title has passed. Of the 34 intragovernmental disbursements we reviewed, 12 were not recorded when the goods and services were received.

- **Overstatement of Accounts Payable and Expenses.** USACE management could not justify the overstatements to balances for recorded Accounts Payable and Expenses. Estimates varied more than 10 percent from the subsequent disbursements; some varied by 50 percent or more. The results of the current processes were inconsistent with Statement of Federal Financial Accounting Standards No. 1 and Department of Defense Financial Management Regulation, volume 4, "Accounting Policies and Procedures," chapter 9, "Accounts Payable." Additionally, goods shipped Free-On-Board were prematurely recognized as payables although title had not transferred. USACE recorded these transactions as liabilities and expenses upon notification from the vendor that the goods had been shipped. Finally, justifications were not provided or were not sufficient to support the recorded estimates, or the recorded estimate could not be readily recalculated.

USACE management also had not implemented effective Accounts Receivable and Revenue controls to ensure the proper recognition of receivables and revenue, including recording accruals. The lack of standard policies and procedures, as well as the inconsistent implementation of existing policies related to Long-term Agreements and Cost Share Agreements, caused the deficiencies. USACE management did not require an independent, documented supervisory review of the completeness, accuracy, and validity of new agreement data entered into the Corps of Engineers Financial Management System. We noted the following accounting and control deficiencies.

- Long-term water storage contract revenue was recognized automatically in the Corps of Engineers Financial Management System based on the contract information entered in Year 1 of a contract. However, in many cases inaccurate information in the Corps of Engineers Financial Management System caused USACE management to incorrectly recognize Revenue and misstate Accounts Receivable.

- Cost share estimates were not completed at financial reporting cut-off dates and were not consistently recognized in accordance with the proportionate cost share rates stated in the related agreements. This deficiency prevented USACE from properly recognizing Revenue and Expenses in the proper period as required by Statements of Federal Financial Accounting Statements No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, Recognition, and Measurement of Exchange Revenue."

In FY 2006, we identified accounting and control deficiencies in USACE accruals for goods and services connected with the Federal Emergency Management Agency. Specifically, USACE management did not record accruals in the proper period for goods and services associated with the Federal Emergency Management Agency funded projects because the Federal Emergency Management Agency required all work to be complete prior to billing. Because the revenue was recorded when billed and not when earned, USACE understated Accounts Receivable and Revenue in its financial statements.

Contingent Liabilities. The Government Accountability Office "Standards for Internal Control in the Federal Government" states that "internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the organization's control objectives." These control activities must also govern nonroutine processes such as the accounting for and disclosure of contingent liabilities supporting claims, litigation, and environmental clean-up costs, in accordance with Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government." USACE management did not have a coordinated end-to-end process among cross-functional teams of financial, program management, and operations personnel to monitor business activities and to identify those situations where and when accounting evaluations or decision making may be necessary. A coordinated end-to-end process is essential to a large, decentralized organization such as USACE.

USACE management did not have a standardized, documented process to ensure accounting and reporting questions were resolved timely. USACE management and Office of Chief Counsel did not completely, accurately, and consistently identify, validate, record, and disclose asserted and unasserted claims in accordance with generally accepted accounting principles. USACE management also did not have adequate controls in place to ensure prevention, detection, and timely correction of accounting and disclosure errors related to contingent liabilities. For example:

- USACE management and Office of Chief Counsel guidance was not sufficient to ensure that they received complete and accurate detailed support for asserted and unasserted claims for accounting and disclosure in the USACE financial statements.

- Documentation was not consistently available to support District General Council's confirmation that all significant events, including any known monetary amounts and status of claims, were reported. When USACE management and Office of Chief Council did not receive a response from the District General Council regarding unasserted claims and assessments, they concluded that no such claims existed. Actual confirmation from District General Council would provide more reliable evidence of whether unasserted claims and assessments exist.

- Management controls were not sufficient for reporting and disclosing potential losses from pending or threatened litigation in the interim June 30, 2007, financial statements. USACE reported and disclosed two cases deemed as having a "probable" likelihood of unfavorable outcomes totaling $60 million. The USACE Resource Management and Office of Chief Counsel schedule reported the potential loss for the two cases of approximately $35 million. The loss resulted in a discrepancy of $25 million between the financial statements and the underlying documentation accumulated by USACE Resource Management and Office of Chief Counsel.

- In FY 2006, USACE management was not aware that USACE had been identified as a potential responsible party related to clean-up at Superfund sites. The

Statements of Federal Financial Accounting Standards No. 5 requires that this information be reported.

- The USACE Interim FY 2006 Legal Representation Letter omitted all information related to potential claims associated with Hurricane Katrina. The Statements of Federal Financial Accounting Standards No. 5 requires that this information be reported.

Without a process to completely and accurately identify contingent liabilities and their impact on the financial statements, USACE management may not able to meet its requirements to issue financial statements in accordance with generally accepted accounting principles. In addition, the inability to identify potential claims may result in USACE not incorporating into its budget the costs associated with these claims.

Financial Report Preparation Using the Defense Departmental Reporting System. USACE has a complex financial reporting process that includes summarizing accounting transactions from approximately 59 Corps of Engineers Financial Management Systems databases, using the Corps of Engineers Enterprise Management Information System. The data is further summarized from the Corps of Engineers Enterprise Management Information System and compiled into the Defense Departmental Reporting System to prepare USACE financial statements. The Defense Departmental Reporting Systems prepares financial statements in accordance with DoD policies and procedures for internal DoD-wide reporting. However, because of the complexities of the process, system constraints, and a lack of management oversight and documentation, the financial statements produced do not comply with Office of Management and Budget and Financial Accounting Standards Advisory Board requirements. Furthermore, USACE identified inconsistencies in its posting logic compared to guidance issued by the Financial Management Service, a bureau of the Department of the Treasury, but has not corrected the condition because of resource constraints. In the FY 2007 audit, we determined the following.

- Because of system limitations of the Defense Departmental Reporting System, the quarterly financial statements for DoD-wide reporting and the annual financial statements did not conform to Office of Management and Budget Circular A-136. For example:

    - The financial statements included line items that did not show a balance.

    - Disclosures related to Fund Balance with Treasury and General Property, Plant, and Equipment were not consistent with Office of Management and Budget guidance.

    - The financial statements included information the Office of Management and Budget guidance does not require.

    - Footnotes to the financial statements omitted disclosures required by generally accepted accounting principles, such as including prior-year comparative information for Accounts Receivable, Environmental Liabilities, and Other Liabilities. Because of these omissions, the information in the footnotes is not comparable to prior-year amounts.

- Sufficient policies and procedures detailing the financial close and reporting process were not maintained and were not available to USACE personnel.

- Documentation detailing review and approval of Defense Departmental Reporting System-generated edit check reports was not maintained.

- Corps of Engineers Financial Management System general ledger account correlation codes, detailing posting logic of transactions, were not consistent with United States Standard General Ledger guidance issued by the Financial Management Service resulting in significant adjustments to the financial statements. For example, because of several program limitations with the Corps of Engineers Financial Management System that remain unresolved, USACE districts, including the USACE Finance Center, had to record journal vouchers totaling over $1 billion in the Corps of Engineers Financial Management System to correct transaction errors for FY 2007.

In the FY 2006 audit, we identified the following.

- The balance sheet did not contain references to the footnotes for Stewardship; Property, Plant, and Equipment; or Heritage Assets, as required by Office of Management and Budget Circular A-136.

- The supplemental information for the Statement of Budgetary Resources was not presented at the account level. Additionally, the supplemental information for the Statement of Budgetary Resources and the deferred maintenance detail were incorrectly included in Required Supplemental Stewardship Information.

- A footnote to reconcile the President's Budget to the Statement of Budgetary Resources was not originally included in the financial statements, as required by Office of Management and Budget Circular A-136.

In addition to preparing the Defense Departmental Reporting System financial statements for internal DoD-wide reporting purposes, USACE management prepares separate stand-alone year-end comparative financial statements that conform to guidance from the Office of Management and Budget and Financial Management Service for audit and external reporting purposes. Due, in part, to Defense Departmental Reporting System limitations, USACE did not have the infrastructure, processes, and other resources in place to prepare and release the quarterly and annual stand-alone financial statements simultaneously with financial statements prepared for internal DoD-wide reporting purposes. Although USACE management prepared stand-alone annual financial statements that did conform to applicable form and content requirements, management did not timely prepare these annual financial statements to meet submission deadlines set forth by the Office of Management and Budget. Because USACE is unable to simultaneously prepare and submit these two sets of financial statements, it cannot meet the Office of Management and Budget timeline in Office of Management and Budget Circular A-136.

The above deficiencies resulted in financial statements that were not prepared in accordance with applicable Federal reporting standards. Without changes in the processes related to compiling and reviewing financial statement information, USACE will continue to be noncompliant with Office of Management and Budget and Financial Accounting Standards Advisory Board requirements.

Significant Deficiencies.

During the FY 2007 and FY 2006 audits, we identified the following five significant deficiencies. USACE management did not report these deficiencies in its FY 2007 and FY 2006 Annual Statements of Assurance on Management Controls. USACE did not identify these significant deficiencies in accordance with the Federal Managers' Financial Integrity Act and Office of Management and Budget Circular A-123, Appendix A.

Financial Management Systems. In FY 2005, USACE acknowledged that its financial management systems did not fully comply with Federal financial management system requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. Until resolved, USACE general and application computer control vulnerabilities may make it difficult for USACE to ensure the reliability, confidentiality, and availability of financial and other sensitive data.

USACE management had not assessed or determined whether the Corps of Engineers Financial Management System complied with the Office of Federal Financial Management, "Core Financial System Requirements," which requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires that financial management systems provide complete, reliable, consistent, timely, and useful information. USACE management has indicated that they have neither completed, nor do they have plans to complete, an assessment of the Corps of Engineers Financial Management System against the Office of Federal Financial Management, "Core Financial System Requirements."

USACE management failed to implement consistent change control policies and processes for its Automated Personal Property Management System, Corps of Engineers Enterprise Management Information System, and Real Estate Management Information System applications. We also found deficiencies related to system access controls for the systems significant to financial reporting. In addition, USACE management did not use the latest Office of Federal Financial Management checklist to evaluate its accounting systems for compliance with Federal systems requirements.

Corps of Engineers Financial Management System User Account Management Control. USACE management did not have an organization-wide document that maps job functions and positions to recommended Corps of Engineers Financial Management System user roles. Existing Corps of Engineers Financial Management System programmed business rules and electronic signature card assignments focused on certain procurement regulatory requirements, but not on other financial accounting and internal control requirements. Consequently, assigning Corps of Engineers Financial Management System user roles and recertifying access privileges was at the discretion of USACE district personnel with no periodic assessment by USACE management at district or headquarters level. Specifically, in the FY 2007 audit, we identified the following.

- Certain users outside of the USACE Finance Center were assigned roles that should have been restricted to USACE Finance Center personnel.
- Users were not consistently prevented from obtaining potentially conflicting role combinations.
- The number of users with sensitive Corps of Engineers Financial Management System roles varied widely across the field operating activity databases, which could indicate the inconsistent assignment of roles by location.
- Three Oracle accounts for deleted software programs were in the Corps of Engineers Financial Management System production databases.
- The Corps of Engineers Financial Management System roles required users to have an electronic signature card as an additional level of user authentication. The users could

not complete the associated transactions without the electronic-signature card and the assigned password. However, several important Corps of Engineers Financial Management System financial accounting roles were not configured to require electronic signature authorization.

In the FY 2006 audit, we identified the following.

- In two instances, segregation of duties business rules allowed users to obtain conflicting Payroll Liaison Officer and Supervisor roles for the W2 database.
- For the Corps of Engineers Financial Management System, 27 user accounts at the USACE Finance Center were inappropriately assigned access with the ability to modify vendor master information and disbursement functions.
- Users outside the USACE Finance Center were assigned Corps of Engineers Financial Management System roles, which should be restricted to USACE Finance Center personnel.
- Corps of Engineers Financial Management System data manager role requests and approvals were not performed through the Corps of Engineers Financial Management System access request management system.

Information Technology General Controls and User Administration. Office of Management and Budget Circular A-130, "Management of Federal Information Resources," requires each Federal agency to implement change controls for every phase of an information life cycle that carries with it a record of management responsibilities. Appendix III to Office of Management and Budget Circular A-130 defines "separation of duties" as the practice of dividing among different individuals the steps in critical job functions.

USACE did not have formal application change control procedures in place for the Automated Personal Property Management System and the Real Estate Management Information System. In addition, the Corps of Engineers Enterprise Management Information System did not use the automated segregation of duties checking capabilities and other edits available in the same library management tool as in the Corps of Engineers Financial Management System.

USACE did not establish formal change control and user account management procedures for the Corps of Engineers Enterprise Management Information System, the Automated Personal Property Management System, and the Real Estate Management Information System. Limited procedures led to the following control deficiencies.

- USACE management could not provide a system-generated list of active user accounts for the Automated Personal Property Management System and the Real Estate Management Information System applications.
- USACE management did not maintain evidence of user access requests and approvals for the Corps of Engineers Enterprise Management Information System, the Automated Personal Property Management System, and the Real Estate Management Information System applications.
- Policies and procedures were not in place requiring a periodic review of user access to the Automated Personal Property Management System, the Real Estate Management Information System, and the Corps of Engineers Enterprise Management Information System applications.

- Real Estate Management Information System application programmers had unmonitored access to the production environment, potentially allowing unauthorized changes to application code or data.

Assessment of Corps of Engineers Financial Management System against Office of Federal Financial Management Requirements. The Office of Management and Budget Circular A-127, revised July 23, 1993, requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires that financial management systems provide complete, reliable, consistent, timely, and useful information.

The Office of Federal Financial Management, "Core Financial System Requirements" replaced the Joint Financial Management Improvement Program requirements in January 2006. These new requirements were not communicated to the Corps of Engineers Financial Management System Project Management Office in Huntsville, Alabama, until late 2006. While USACE management indicated they plan to complete the Army Audit Agency's Federal Financial Management Improvement Act checklist requirements, they have neither completed, nor do they plan to complete, an assessment of the Corps of Engineers Financial Management System against the Office of Federal Financial Management, "Core Financial System Requirements."

We noted several instances of noncompliance with the Federal Financial Management Improvement Act. In addition, the Corps of Engineers Financial Management System application may not comply with the Federal Financial Management Improvement Act core financial system technical requirements. USACE management has limited assurance that the Corps of Engineers Financial Management System meets the Government-wide standards set for system reliability and integrity.

Controls over Other Accompanying Information. The Management Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information were not required parts of the financial statements but were supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget Circular A-136. The scope of our work included procedures in Office of Management and Budget Bulletin No. 07-04. We noted the following control weaknesses and other conditions.

- In FY 2007 and FY 2006, USACE did not establish effective internal controls to monitor the accuracy and completeness of data at the headquarters and district levels.

- System limitations and input data errors affected the completeness and accuracy of the Other Accompanying Information for 5 of 10 programs in FY 2007, and for 7 of 9 programs in FY 2006.

- In FY 2007 and FY 2006, required information for the Management Discussion and Analysis was omitted because USACE management did not finalize the results for performance measures in a timely manner.

- For FY 2007, 15 out of 42 instances had variations between actual results for several performance measures reported in the Management Discussion and Analysis and the underlying supporting evidence.

- USACE included trading partner data, which are not required to be reported in the Required Supplementary Information in FY 2007.

Compliance with Laws and Regulations

Management is responsible for complying with existing laws and regulations related to financial reporting. The purpose of our work to determine compliance with selected provisions of the applicable laws and regulations was to obtain reasonable assurance whether the USACE FY 2007 and FY 2006 financial statements were free of material misstatement. We performed tests of compliance with certain provisions of laws, regulations, contracts, and agreements, which could have a direct and material effect on the determination of financial statement amounts, as well as with other relevant laws and regulations specified in Office of Management and Budget Bulletin No. 07-04. However, we did not determine whether USACE complied with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

The results of our audit tests disclosed instances of noncompliance or other matters that Government Auditing Standards and Office of Management and Budget Bulletin No. 07-04 required to be reported.

- **Debt Collection Improvement Act of 1996.** In our audits, we examined a sample of interest payments related to the Debt Collection Improvement Act. In FY 2007, 28 of 59 of these sample items were not calculated correctly. In FY 2006, 8 of 32 sample items were not calculated correctly. The miscalculations may have been caused by (1) incorrect interest rate percentages entered into the Corps of Engineers Financial Management System, (2) by system irregularities in the Corps of Engineers Financial Management System that created inconsistent accrual of interest throughout the life of the receivables, or (3) USACE management may not have performed a periodic review of standing interest rate data in the Corps of Engineers Financial Management System.

- **Federal Financial Management Improvement Act of 1996.** USACE did not comply with Federal financial management systems requirements, with Federal accounting standards, and with United States Standard General Ledger transaction guidance. USACE management did not assess the Corps of Engineer Financial Management System against the Office of Federal Financial Management, "Core Financial System Requirements." Management did not implement consistent change control policies and processes for the Corps of Engineers Enterprise Management Information System, the Automated Personal Property Management System, and the Real Estate Management Information System. Management also did not recognize access control deficiencies in these systems and did not apply robust policies and procedures to ensure adequate change controls and system access controls. USACE management did not use the latest Office of Management and Budget Office of Federal Financial Management checklist to evaluate its accounting systems for compliance with Federal systems requirements. In addition, management did not comply with portions of Federal accounting standards from the Statement of Federal Financial Accounting Standards No. 1, the Statement of Federal Financial Accounting Standards No. 5, Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," and the Statement of Federal Financial Accounting Standards No. 4. USACE management also did not have robust policies and procedures to ensure review and appropriate implementation of applicable accounting guidance. In addition, management did not comply with the United States Standard General Ledger guidance issued by the Financial Management Service. USACE posting logic related to Recoveries of Prior-Year Obligations and to certain transfers of budgetary authority was inconsistent with the United States Standard General Ledger guidance. Had USACE management sufficiently reviewed its accounting system's posting logic, management may have identified and corrected the inconsistency.

The FY 2006 audit also disclosed additional instances of noncompliance or other matters that were required to be reported under Government Auditing Standards and Office of Management and Budget Bulletin No. 07-04.

- **Antideficiency Act.** For the period ended September 30, 2006, USACE had self-reported seven possible Antideficiency Act compliance violations. These violations appeared to be caused by personnel who were not aware of funding restrictions as described by the Antideficiency Act and by the lack of senior management oversight and review.

- **Federal Managers' Financial Integrity Act of 1982.** The USACE FY 2006 Annual Statement of Assurance on Management Controls did not identify internal control material weaknesses as required by the Federal Managers' Financial Integrity Act. The documentation and validation procedures performed by USACE management appeared to be limited in scope and, therefore, did not cover all the significant risk areas.

Audit Disclosures

We will provide the recommendations for corrective actions associated with USACE material internal control weaknesses, other significant deficiencies, and noncompliance with laws and regulations addressed in this report to USACE management in a separate letter.

U.S. ARMY

We are interested in your feedback regarding the content of this report.
Please feel free to e-mail your comments to *AAFS@hqda.army.mil* or write to:

Department of the Army

Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)
Office of the Financial Reporting Directorate
Room 3A312, 109 Army Pentagon
Washington, DC 20310-0109

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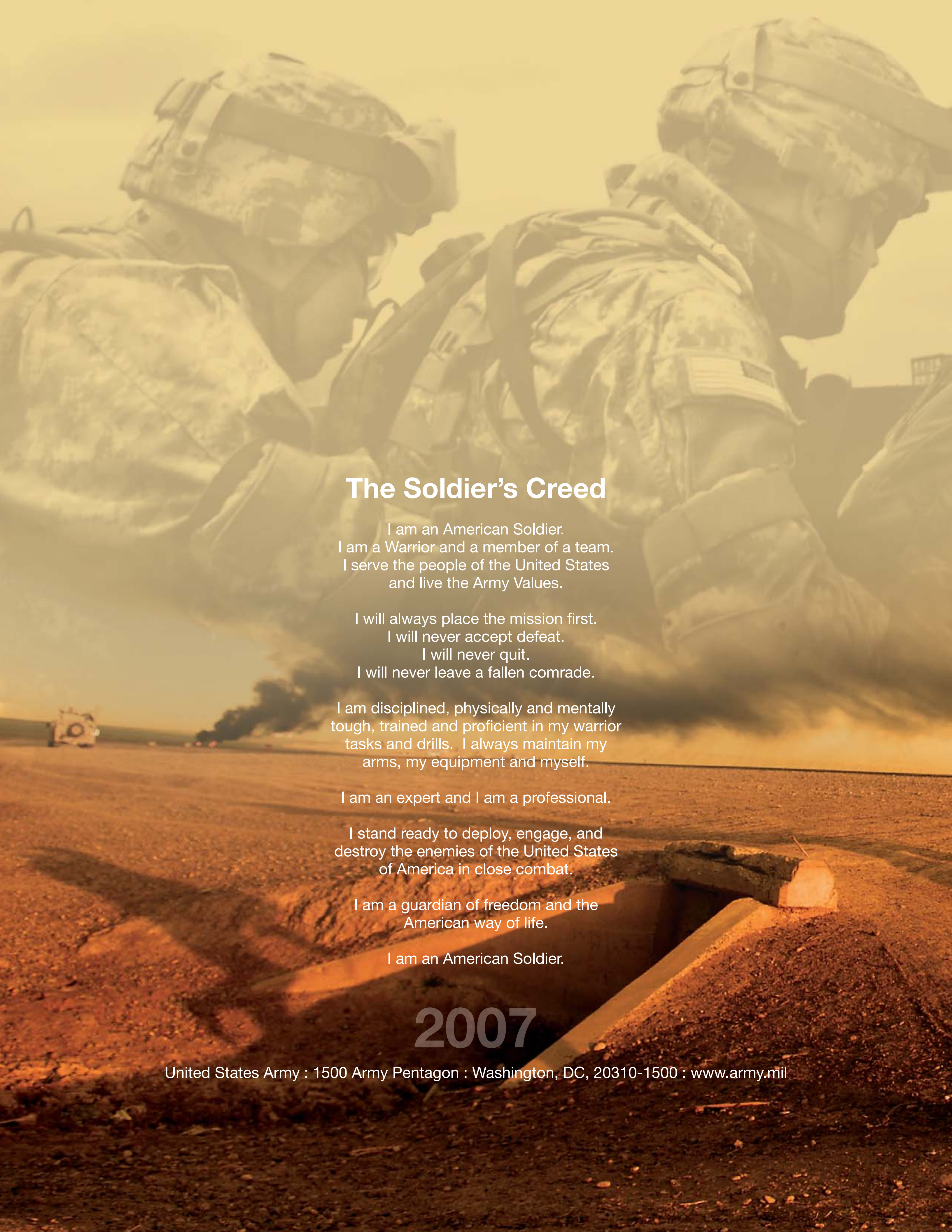

The Soldier's Creed

I am an American Soldier.
I am a Warrior and a member of a team.
I serve the people of the United States
and live the Army Values.

I will always place the mission first.
I will never accept defeat.
I will never quit.
I will never leave a fallen comrade.

I am disciplined, physically and mentally
tough, trained and proficient in my warrior
tasks and drills. I always maintain my
arms, my equipment and myself.

I am an expert and I am a professional.

I stand ready to deploy, engage, and
destroy the enemies of the United States
of America in close combat.

I am a guardian of freedom and the
American way of life.

I am an American Soldier.

2007

United States Army : 1500 Army Pentagon : Washington, DC, 20310-1500 : www.army.mil