2008

Fiscal Year 2008 United States Army Annual Financial Statement

U.S. Army Corps of Engineers - Civil Works

Financing America's Army: The Strength of the Nation

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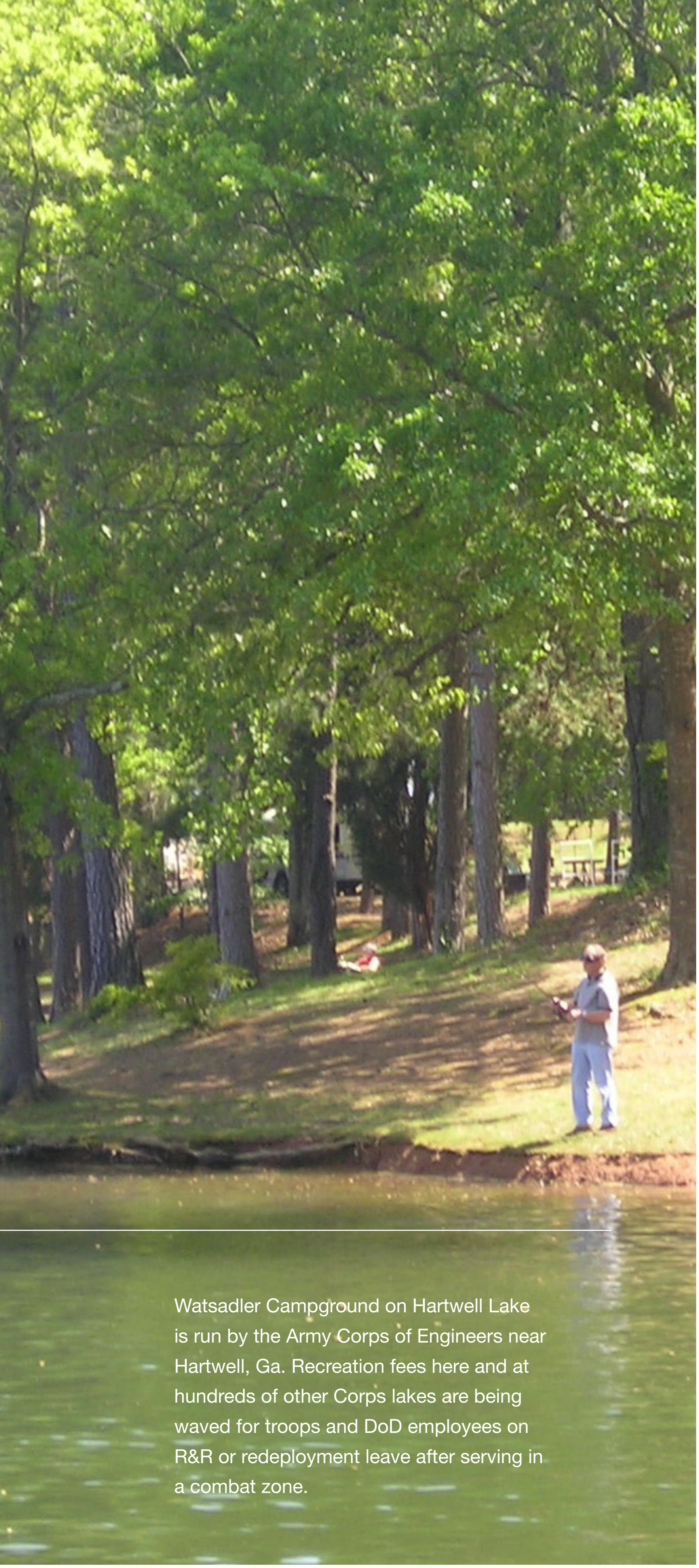

Watsadler Campground on Hartwell Lake is run by the Army Corps of Engineers near Hartwell, Ga. Recreation fees here and at hundreds of other Corps lakes are being waved for troops and DoD employees on R&R or redeployment leave after serving in a combat zone.

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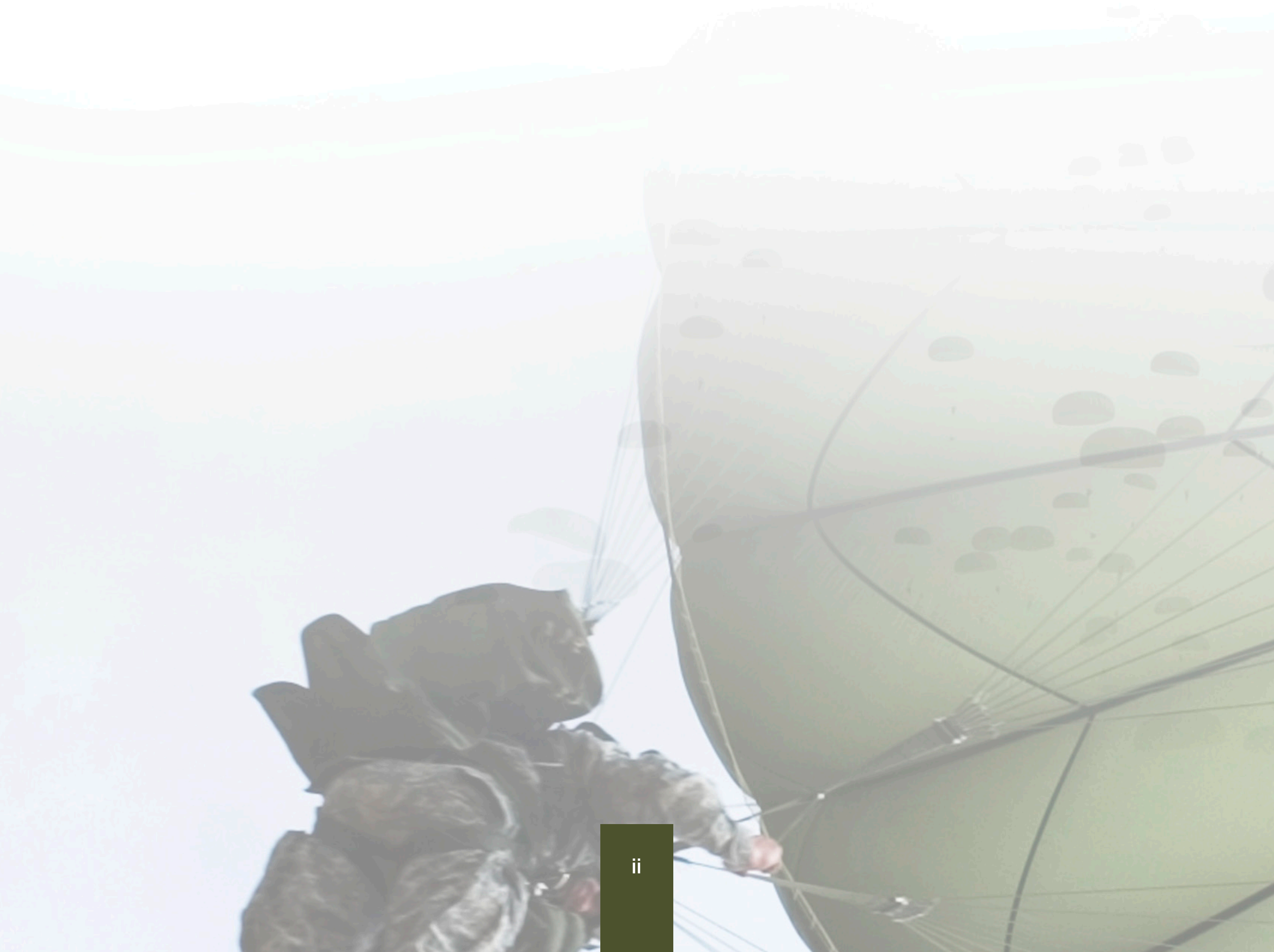
The Honorable

John Paul Woodley, Jr.

Assistant Secretary of the Army (Civil Works)



For more than 200 years, in both war and peace, the Corps of Engineers has been a critical part of the Army team. The Corps has important roles and responsibilities in three arenas – Civil Works, military construction and reimbursable support for other Federal and non-Federal agencies. National security interests associated with the Global War on Terrorism, plus humanitarian needs created by natural disasters, have produced a continuing requirement for stability and reconstruction assistance in various parts of the world, and for rapid response to emergency developments within the United States and elsewhere.

The Corps excels at maintaining a vibrant Civil Works program while attending to its military and contingency missions at home and abroad. Work on the system of levees and floodwalls in the New Orleans area continues and is expected to be completed in 2011. This system, which is designed to provide protection from a flood that has a one percent chance of occurring in any given year, will offer greater hurricane and storm damage risk reduction for New Orleans than ever before in the city's history. Hurricane Gustav already has tested the system's resiliency and highlighted the importance of risk reduction. Hurricanes Ike and Gustav also wreaked havoc in parts of Texas and Louisiana. The Corps responded quickly to the destruction and continues to support FEMA with recovery operations in the affected areas with expedited levee repairs, and where appropriate, non-structural solutions to reduce future flood risks and improve floodplain management coordination. Similar measures have been undertaken in the Midwest.

The Corps is committed to improving the reliability of water resources infrastructure using a risk based asset management strategy. It continues to optimize water resources infrastructure operating and investment decisions, balancing expected benefits against predicted costs within available funds, thereby helping to ensure that projects and investments meet the Nation's evolving needs.

This annual report addresses Civil Works financial management in the program areas of navigation, flood and coastal storm damage reduction, aquatic ecosystem restoration, hydropower, recreation, environmental stewardship, water supply, regulation of water and wetlands, cleanup of atomic waste sites and emergency management. Challenges abound in each of these programs and the Corps is addressing them by striving to achieve its strategic goals. The Army's commitment to the Civil Works program remains strong. Sustainable development, environmental restoration, infrastructure modernization, effective disaster response, and world-class public engineering are strategic goals that will advance the economic strength and environmental well-being of our Nation.

John Paul Woodley, Jr.

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

“We have magnificent Soldiers, leaders and civilians. They are ordinary people who are doing extraordinary things for our country.”

General George Casey, Chief of Staff of the Army

Aerial view of Port of Oakland and Harbor.
Oakland, California.

Overview

Mission

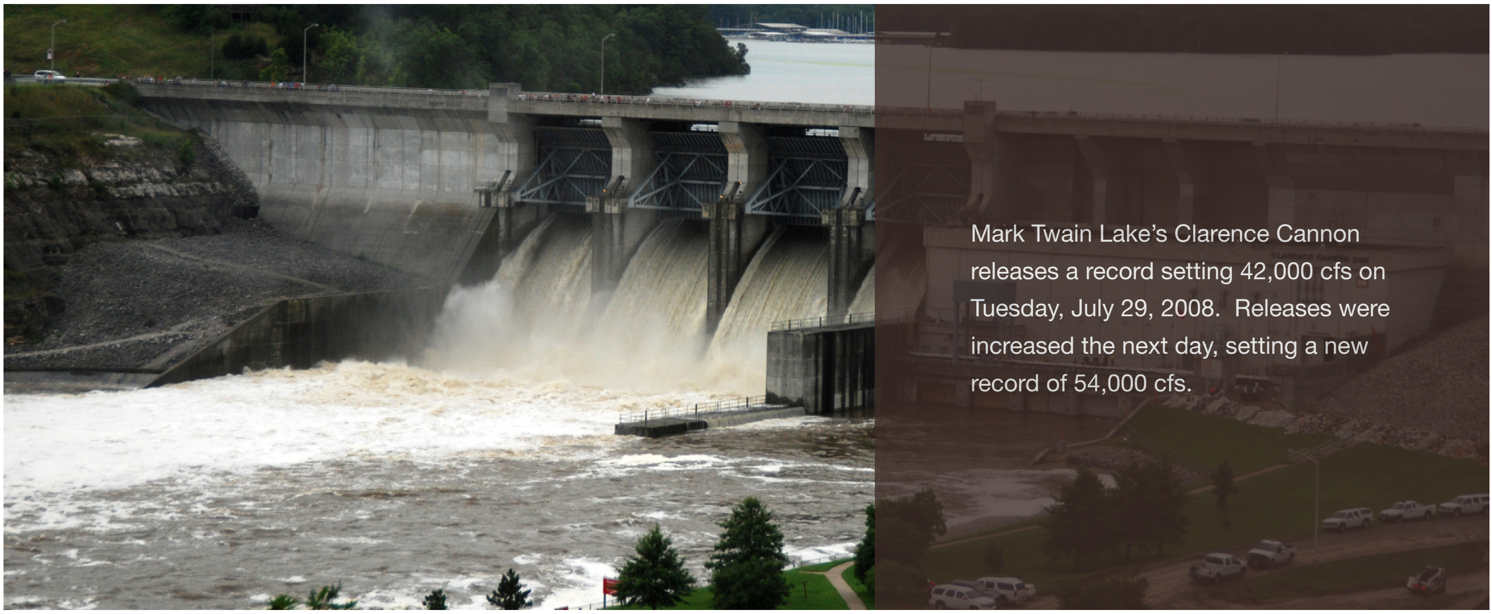
The civil works mission of the United States Army Corps of Engineers (USACE) is to contribute to the national welfare and serve the nation with quality, responsive development and management of the nation's water resources; protection, restoration and management of the environment; disaster response 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 federal navigation channels. Over the years and through subsequent legislation, the Corps' role has expanded to include flood risk management, improvement of aquatic habitat, generation of hydroelectric power, creation of recreation opportunities, provision of water storage for municipal and industrial water supplies, regulation of discharges into navigable waters and emergency planning and management.

Protecting, Restoring and Managing the Environment

The Rivers and Harbors Act of 1890 required the Corps to prevent the obstruction of navigable waterways. As concern over the environment grew in the late 20th century, the National Environmental Policy Act of 1969 and the Clean Water Act of 1972 greatly broadened the scope of the Corps' responsibility for regulation of discharges into U.S. waters, including the country's wetlands. The civil works program's environmental responsibilities have continued to grow through additional legislation and now include aquatic ecosystem restoration, remedial activities at former defense sites and stewardship responsibilities.



Mark Twain Lake's Clarence Cannon releases a record setting 42,000 cfs on Tuesday, July 29, 2008. Releases were increased the next day, setting a new record of 54,000 cfs.

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 natural and man-made disasters. The Corps responds to natural disasters under the Flood Control and Coastal Emergency Act (P.L. 84-99, as amended). The Corps responds to man-made disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 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.

Providing Engineering Support and Technical Services

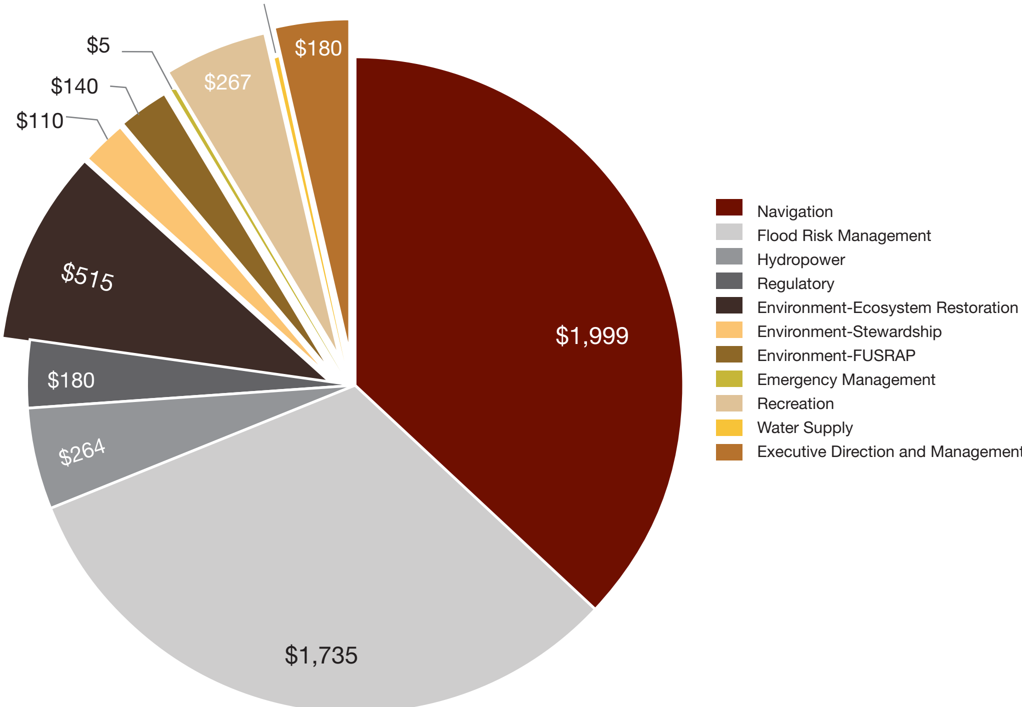
In Titles 10 and 33 of the U.S. Code, Congress expresses its intent for the Corps to provide services on a reimbursable basis to other federal entities; state, local and tribal governments; private firms; and international organizations. Additional authority to provide services to all federal agencies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

U.S.ARMY

Civil Works Programs

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

Figure 1 – FY 2008 Civil Works Initial Appropriation by Business Line
(Amounts in millions)



Note: An additional $193 million (3.5 percent of the total appropriation) was received for environmental infrastructure projects, which are neither budgeted nor associated with any business line. This brings the total initial appropriation to $5,592 million.


Nesting Least Tern Pair in the Sandbar Habitat on the Missouri River below Gavins Point Dam. Yankton, South Dakota

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, intermodal connections, shipyards and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways; approximately 350 coastal, Great Lakes and inland harbors; and channel projects maintained by the Corps.

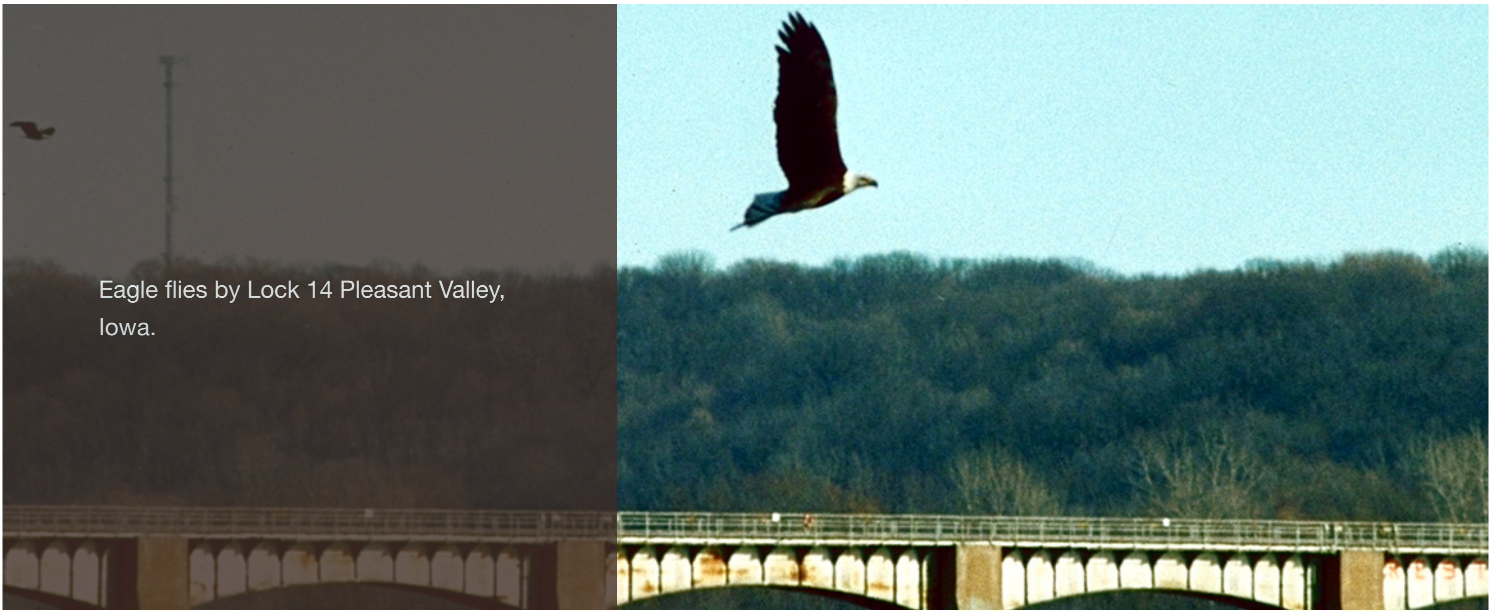
This program, estimated at $2 billion, accounted for 37 percent of civil works initial appropriations in FY 2008.

Flood Risk Management

The Flood Risk Management Program, formerly known as the Flood and Coastal Storm Damage Program, is aimed at reducing property damage and risk to human safety 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. Upon completion, and with the exception of reservoirs, most of the infrastructure built under this program is transferred to the sponsoring cities, towns and agricultural levee districts that own and operate the projects.

Over the years, the Corps' mission of addressing the causes and impacts of flooding has evolved from flood control and flood prevention and, more recently, from more comprehensive flood risk management. These changes reflect a greater appreciation for the complexity and dynamics of flood problems – the interaction of natural forces and human development – as well as the federal, state, local and individual partnerships necessary for thorough management of the risks caused by coastal storms and heavy rains.

Gavins Point Dam, South Dakota.



Eagle flies by Lock 14 Pleasant Valley, Iowa.

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, environmental, ethical, political and legal considerations. The Corps' approach to flood risk management includes collaborations with partners and stakeholders—i.e., the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development, the National Oceanic and Atmospheric Administration, several states governments, sponsors and affected citizens—that effectively and efficiently, make the nation more aware of flood risk.

In FY 2008, this $1.74 billion program accounted for just over 31 percent of civil works appropriations.

Environment

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).

Aquatic Ecosystem Restoration. The Army's mission in the area of aquatic ecosystem restoration is to help restore aquatic habitat to a more natural condition in ecosystems whose structures, functions and dynamic processes have become degraded. The emphasis is on restoration of nationally- or regionally-significant habitat where the solution primarily involves modifying the hydrology and geomorphology. In FY 2008, the aquatic ecosystem restoration program received $515 million, approximately 9.2 percent of the total initial appropriation.

Environmental Stewardship. The environmental stewardship program focuses on the management, conservation and preservation of natural resources on 11.5 million acres of land and water at 456 multipurpose Corps projects. Among other environmental activities, program personnel monitor water quality at Corps dams and operate fish hatcheries in cooperation with state wildlife agencies. The program includes compliance measures to ensure that Corps projects meet federal, state and local environmental requirements; prevention; and conservation. In FY 2008, the environmental stewardship program received $110 million, a figure that comprised 2 percent of the total initial appropriation.

FUSRAP. Under the FUSRAP, the Corps cleans up former Manhattan Project and Atomic Energy Commission sites, making use of expertise gained in cleaning up former military sites and civilian hazardous waste sites under the Environmental Protection Agency Superfund program. In FY 2008, the FUSRAP program received $140 million, or approximately 2.5 percent of the total initial appropriation.

Regulation of Wetlands and Waterways

In accordance with the Rivers and Harbors Act of 1890 (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 as well as the general public when rendering its final permit decisions.

In FY 2008, this $180 million program accounted for a little more than 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 that supports the Department of Homeland Security in carrying out the National Response Framework. It does this by providing emergency support in the areas of public works and engineering, and by conducting emergency response and recovery activities under authority of Public Law 84-99. 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, resulted in federal costs of approximately $125 billion in Louisiana, Mississippi and Alabama. USACE costs to repair and upgrade the New Orleans Hurricane and Storm Damage Risk Reduction System (HSDRRS) will be approximately $14 billion. Major damage to the storm protection system in the New Orleans area included overtopping of 47 sections of levees and the failure of three floodwalls along Lake Pontchartrain and vicinity. In addition, several New Orleans-to-Venice projects required extensive repairs prior to the beginning of the 2006 hurricane season.

Coupled with its repair efforts, the Corps began studying ways to improve hurricane protection in the vicinity of Lake Pontchartrain. The Corps commissioned a Hurricane Protection Decision Chronology (HPDC) shortly after Hurricane Katrina in order to collect, record and analyze project memoranda, reports and related documentation. This material was used to better understand how complex social and political decision-making processes contributed to the HSDRRS and how those processes might be improved. Subsequently, a report provided an explanation—as opposed to an evaluation—of the way in which Corps' policies and organization, legislation, financial and other factors influenced decisions that led to the HSDRRS protective structures in place when Hurricane Katrina struck.

The HPDC focus on project decision-making complemented the engineering forensics investigations conducted by the Interagency Performance Evaluation Task Force and other institutions. The HPDC's purpose is to make predictions about the future by looking at historical data, and it demonstrated that no single individual, agency, organization or decision was solely responsible for the development of the HSDRRS over the course of its 50-year history. The Corps is committed to open, transparent communication with the American public regarding the 'lessons learned' in the aftermath of Hurricane Katrina.

Workers under contract to the U.S. Army Corps of Engineers use heavy equipment to clear trees killed by flooding caused by Hurricane Katrina.

The Corps not only contributes to domestic emergency management efforts, but 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 2008, this program received approximately $45 million in supplemental appropriations for the National Emergency Preparedness Program in Flood Control & Coastal Emergencies funding, which supports continuity of operations activities, non-natural disaster preparedness activities and flood fighting. This amount is less than 1 percent of the total civil works appropriation. This program did not receive funding in the regular civil works appropriation.

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 350 generating units at 75 multipurpose reservoirs, mostly in the Pacific Northwest; they account for about 24 percent of America's hydroelectric power and approximately 3 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 $264 million program accounted for almost 5 percent of civil works appropriations.

Harry S. Truman Power Plant. Turbines. Warsan, MO.

Water Storage for 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 in connection with construction, operation and modification of federal navigation; flood damage reduction; and multipurpose projects.

In FY 2008, this $4 million program accounted for less than 1 percent of civil works appropriations.

Recreation

The Corps is an important provider of outdoor recreation, which is an ancillary benefit of its flood prevention and navigation projects. The Corps' recreation program provides quality outdoor public recreation experiences in accordance with its three-part mission: 1) serve the needs of present and future generations; 2) contribute to the quality of American life; and 3) manage and conserve natural resources consistent with ecosystem management principles.

The Corps administers 4,488 recreation sites at 423 projects on 12 million acres of land. During fiscal year 2007, 10 percent of the U.S. population visited a Corps project at least once. These visitors spent $18 billion pursuing their favorite outdoor recreation activities, which, in turn, supported some 350,000 full- and part-time jobs.

In FY 2008, this $267 million program accounted for less than 5 percent of the civil works budget.

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 three remaining districts are dedicated to military-related missions. There is a ninth provisional division in the Gulf Region that supports operations in Iraq and Afghanistan; it has three provisional districts embedded within the division. There is also a provisional district in Afghanistan that reports directly to Corps headquarters.

Figure 2 shows the division boundaries. These are defined by watersheds and drainage basins, reflecting the water resources nature of the civil works mission. Through its Pacific Ocean and South Atlantic Divisions, the Corps also has civil works responsibilities in the Territory of American Samoa, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

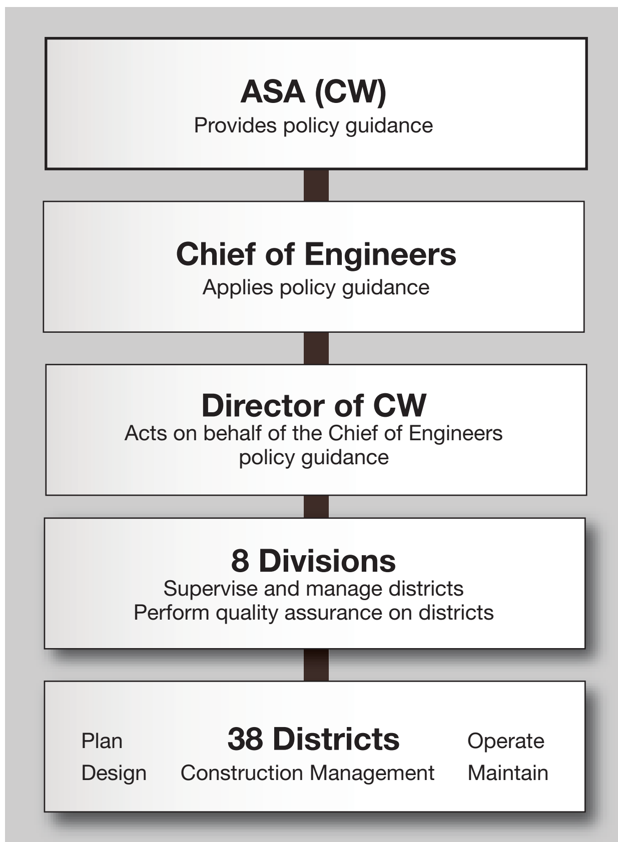
The distribution of civil works employees again highlights the program's customer focus: 95 percent of employees work at the district level (in labs or field operating agencies) reflecting the fact that project management and operations and maintenance activities are performed at the local (i.e., district) 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

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 who is responsible for mission accomplishment; however, he delegates the management of this program 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, to include oversight and quality assurance. Districts are the foundation of the civil works mission, managing water resource development over a project's life cycle.

Figure 3 – Civil Works Levels of Authority



Civil Works Fund Performance Results

Civil works directly impacts America's prosperity, competitiveness, quality of life and environmental stability. In March 2004, the Corps' leadership 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 from 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 2008, 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: 1) identifying trends in scheduled and unscheduled lock closures for the inland and intracoastal navigation system, measured in hours and weeks, and 2) identifying trends in channel availability for coastal navigation projects, measured in percent-of-time available.

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

Flood Risk Management

Objective: To invest in environmentally-sustainable flood and coastal storm damage reduction solutions for the nation through the safe operation of flood reduction infrastructure when benefits exceed costs.

Performance Indicator: This is measured by the performance of civil works facilities in reducing damage and risk to human safety where flooding otherwise would have occurred.

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

Hydropower

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

Performance Indicators: The availability of hydroelectric generating units during peak power-demand periods; 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 7 displays the funding for aquatic ecosystem restoration.

Performance Indicators: The Corps has established six indicators to assess progress in meeting this objective. The Corps began collecting performance data for four of these indicators during fiscal years 2005 and 2006. Data are shown in Table 7.

- **Acres of habitat restored, created, improved or protected – annual.** The number of acres of habitat restored is an appropriate measure for documenting progress in restoring degraded ecosystems.

- **Nationally-significant acres of habitat restored, created, improved or protected – annual.** This measure documents the number of acres of habitat restored each year that have high-quality outputs as compared to national needs.

- **Cost per acre to restore, create, improve or protect nationally-significant habitat.** The per-acre cost of projects that produce nationally-significant acres in any given year are used to calculate this figure. Over the long term, through efficiencies in project execution or other actions, the goal is to restore the most acres per dollar expended.

- **Percent of all restored, created, improved or protected acres of habitat that are nationally significant.** This is a four-year rolling average of acreage restored over the previous four years that meets the criteria for national significance, and that is expected to have the greatest impact on restoration of the nation's ecosystems. The long-term goal calls for 75 percent of the total acres restored, in each four-year period, to be nationally-significant acreage.

The following two indicators were developed during FY 2008 (data will be available for reporting purposes in FY 2009):

- **Number of acres of habitat restored, created, improved or protected – long term.** This is a periodic aggregate of the total acres of habitat restored, created, improved or protected in a four-year period.

- **Number of nationally-significant acres of habitat restored, created, improved or protected – long term.** This is a periodic aggregate of the total nationally-significant acres of habitat restored, created, improved or protected within a four-year period.

Performance Results

A significant portion of the FY 2008 funds for this program advanced the Everglades South Florida/Central and South Florida projects. Examples include restoration of the Kissimmee River, the Seminole Big Cypress restoration, Manatee pass-through gates and the South Dade County C-111 modification. A significant focus was to meet the biological opinion requirements for the Columbia River system and the Missouri River. Other projects with major expenditures included restoration of Poplar Island, MD; Hamilton Airfield, Wetlands, CA; the upper Mississippi River restoration; and modifications to the Chicago Sanitary and Ship Canal to block Asian carp entry into the Great Lakes from the Mississippi. In addition, the Corps conducted a substantial number of studies exploring ecosystem restoration options in a variety of diverse ecosystems across the country.

The original targets for FY 2008 performance were based on the scheduled completion of 33 projects. Approximately half that number were completed. The project mix was significantly different from the original list, and three of the larger projects scheduled for completion were delayed. One project, Long Meadow Lake, MN, accounts for over one-half of the acres restored in FY 2008. Due to the relatively small number of projects scheduled for completion in any one year, as well as the large range of acres involved in these projects, significant fluctuations in the acreage completed are common.

Table 1 – Aquatic Ecosystem Restoration Indicators

	FY 2005	FY 2006	FY 2007	FY 2008 (Note 1) Target	FY 2008 (Note 1) Actual
Funding history in millions of dollars	$408	$516	$340	$515	$429
Acres of habitat restored, created, improved, or protected – annual	32,573	6,600	4,838	17,800	2435
Nationally significant acres of habitat restored, created, improved, or protected – annual	Note 2	5,500	2,987	15,400	1986
Cost per acre to restore, create, improve, or protect nationally significant habitat		$9,800	$6,800	$2,400	$6,700
Percent of all restored, created, improved, or protected acres of habitat that are nationally significant		83%	62%	86%	82%

Note 1: Beginning in FY 2008, this business program credits acres in a given year when physical construction is complete, instead of the last year that the project is budgeted in the construction account. This change is due to the increased use of fully-funded contracts and funding of the out-year monitoring requirements.

Note 2: Performance measures were developed in FY 2006, 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) while making timely, fair permit decisions.

Funding History: The first row of Table 2 displays the funding of the regulatory program.

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

- **Individual permit compliance.** The percent of all individual permits on which the Corps completed an initial compliance inspection; permits measured are those issued during the previous fiscal year where authorized work has begun.
- **General permit compliance.** The percent of all general permits on which the Corps completed an initial compliance inspection; permits measured are those issued during the previous fiscal year where authorized work has begun.
- **Mitigation site compliance.** The percent of field compliance inspections completed on active mitigation sites each fiscal year. Active mitigation sites are those sites authorized through the permit process, monitored as part of the permit process, but which have not met final approval under the permit special conditions.
- **Mitigation inspections or audits.** The percent of compliance inspections or audits completed on active mitigation banks and in-lieu-of-fee programs.
- **Resolution of non-compliance issues.** The percent of non-compliance issues identified during the current fiscal year on which the Corps reached resolution. This addresses non-compliance with permit conditions.
- **Resolution of enforcement actions.** The percent of pending enforcement actions (i.e., unauthorized activities) identified during the current fiscal year on which the Corps reached resolution.

- ☐ **General permit decisions.** The percent of permit decisions made within 60 days on general permit applications.

- ☐ **Individual permits.** The percent of permit decisions made within 120 days on general individual permit applications. This standard shall not include individual permits with formal Endangered Species Act (ESA) consultations.

Performance Results

Fiscal Year 2008 funds were used to hire and support regulatory personnel in analyzing projects and making permit decisions, completing necessary compliance efforts on issued permits, and investigating and resolving instances of alleged unauthorized activities within the nation's waters.

Promulgation of guidance associated with the Supreme Court decision on the Carabell and Rapanos[1] cases significantly increased the staff workload for many jurisdictional determinations. The regulatory program continues to experience high levels of scrutiny from the public, elected officials and interest groups as development pressures mount and national public awareness of the importance of aquatic resources continues to grow. Court decisions at the local, state, regional and national levels continue to require adjustments to the program. Increased sensitivity to the functions and services provided by wetlands has resulted in greater direct input from the public, environmental and development interest groups, as well as federal and state resource agencies. This has led to greater scrutiny, and subsequent controversy, in the review of permit proposals.

The Corps has implemented several initiatives to speed the permit decision process and improve environmental review and documentation. In several districts, the regulatory program arranged Lean Six Sigma analyses of the individual permit process in an effort to streamline the process and reduce waste. The program also continues to make improvements to a nationwide spatial database that tracks all Corps permits, thereby enabling better decision-making and more efficient permit processing. Through a nationwide network of subject matter experts, the Corps is implementing a program to increase use of programmatic general permits, which will expand overall technical expertise and reduce the number of routine Corps actions. All these 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 2005	FY 2006	FY 2007	FY 2008 Target	FY 2008 Actual
Funding history in millions of dollars	$143	$158	$159	$180	$176
Percent of compliance inspections on individual permits	14%	41%	11%	10%	22%
Percent of compliance inspections on general permits	5%	7%	7%	5%	7%
Percent of active mitigation sites inspected	9%	10%	7%	5%	18%
Percent of compliance inspections on active mitigation banks	19%	26%	63%	20%	39%
Percent resolution on non-compliance with permit conditions or mitigation requirements	24%	37%	56%	20%	28%
Percent resolution on pending enforcement actions	23%	60%	82%	20%	34%
Percent of general permit application decisions made within 60 days	85%	82%	78%	75%	82%
Percent of standard permits and letter of permission permit decisions made within 120 days	61%	61%	53%	50%	51%

Note 1: Estimated due to historic data conversions

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: 1) minimize risk to human health and the environment; 2) maximize the cubic yardage of contaminated material disposed in a safe and legal disposal facility; and, 3) return the maximum number of affected individual properties to beneficial use.

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

Performance Indicators: The measures listed in Table 3 serve as indicators to help Corps personnel determine progress in meeting this objective. In addition to the indicators explained below, the Corps has begun to measure both the cumulative percentage of FUSRAP funding expended on actual cleanup activities, as well as 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 limiting 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 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, risks to human health and the environment are reduced to within acceptable levels. Properties may be used within a community without fear of increased cancer risk or further degradation of the environment.

- **Percentage of funding expended on cleanup.** Measures the cumulative three-year percentage of FUSRAP funding expended on cleanup activities rather than on studies. Baseline for this measure was established in FY 2004; results are reported every three years.

Data are being gathered on one other performance indicator (below) and will be reported as soon as a complete year's worth of data is available.

- **Remediation of contaminated material.** The cost to dispose of contaminated material as measured in cubic yards. Data for this measure will not be available until late FY 2009.

Performance Results

Fiscal Year 2008 funds were used to continue remedial activities at the Painesville, Linde, Maywood and St. Louis vicinity property sites. Remedial activities will continue at other sites with the excavation of 130,000 cubic yards of contaminated material. Remedial investigations were completed at the Niagara Falls Storage Site and the Iowa Army Ammunition Plant site. RODs were completed at the Tonawanda Landfill and Luckey Ground Water sites.

FUSRAP met or exceeded five of the seven FY 2008 performance indicators. The exceptions were the metrics that measured the number of RODs signed and the remedies in place. The Corps did not complete the ROD for the Harshaw Site IA-6 operable unit as planned; the ROD for this operable unit will be completed in FY 2009. Due to a significant increase in soil volume, the remedial work at the Painesville site was not completed as planned. As of the printing of this report, the completion date for the remedial work at this site is unknown.

Table 3 – Remedial Action Indicators

				FY 2008	
	FY 2005	FY 2006	FY 2007	Target	Actual
Funding history in millions of dollars	$164	$139	$138	$140	$132
Number of RODs signed	3	2	5	3	2
Remedial investigations completed	5	4	0	2	2
Action memos signed	0	1	0	0	0
Contaminated material removed (in thousand cubic yards)	243.0	225.0	185.6	125	153.8
Individual properties returned to beneficial use	5	15	27	34	40
Remedies in place or response complete	2	0	4	1	0
Percentage of funding expended on cleanup	Note 1			80%	84.3%

Note 1: This is a new measure for FY 2008. The measure is cumulative and data will be reported every third year.

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 to commercial traffic of high-use infrastructure (e.g., waterways, harbors, channels).

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

Funding History: The first row of Table 4 displays funding for the operation and maintenance of the navigation program.

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

Operation and maintenance measures for inland and intracoastal waterways, including major rehabilitations

- **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 a particular inland or intracoastal waterway. Although there is no specific target generated by the Corps, this indicator is used for trend analysis.
- **Segment availability.** (Formerly titled Navigation Lock Availability. Measure was revised slightly to better reflect availability of the waterway, including the lock, rather than just availability of the lock.) Number of hours where mechanical-driven failure or shoaling results in the closure of all or part of a high- or moderate-commercial-use segment for over 24 hours. The measure includes only failures on the main chamber of a lock (rather than an auxiliary chamber) and on shoaling due to inadequate dredging (rather than low water levels from droughts or channels closed due to floods). It also tracks closures of more than one week.

The two measures, listed below, have been replaced with new measures (also below) that better reflect the value and service to the nation provided by these Corps assets.

- **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.

The Corps developed new performance measures and began data-gathering in FY 2008. Data will be reported as soon as a complete year's worth of information is available.

- **Channel availability, high-use projects.** The percent of time that inland and intracoastal waterway segments with high commercial activity are available when customers want to use them. The focus is to minimize vessel draft restrictions due to shoaling of the channels, and to minimize local closures due to mechanical failures.
- **Percent of high-use segments with a good service level.** Percent of high commercial-use segments with sufficient preventive maintenance to achieve a good level of service. High-use segments are the upper- and lower- Mississippi, the Illinois, Ohio and Tennessee Rivers and the Gulf Intracoastal Waterway.
- **Efficiency measure: Total funds expended per segment ton-mile (five-year rolling average).** Total O&M funds expended per segment ton-mile averaged over a five-year period, including major repairs.

Operations and maintenance measures for coastal ports and harbors, including major repairs.

- ☐ **Tons of cargo.** Total sum of cargo in tons moved in and out of coastal ports and harbor systems. This measure indicates utilization of the system, and the data collected are for the purpose of trend analysis. Although there is no specific target assigned by the Corps, this indicator is used for trend analysis.

- ☐ **Channel availability, high-use projects.** The percent of time that high commercial-traffic navigation channels are available to commercial users. There are approximately 59 high-use projects, defined as those that pass 10 million or more tons of cargo per year.

- ☐ **Efficiency measure.** Operation and maintenance costs per ton of cargo shipped. The measure assesses the efficiency of the commercial navigation system at a particular coastal port or harbor.

The following measure has been replaced. The new measures, described below, better reflect the value and service provided to the nation by these Corps assets.

- ☐ **Assets with operational risk assessments.** The percent of the navigation port and harbor assets in the inventory having had a recent operational risk assessment.

In FY 2008, the Corps instituted new performance measures and began gathering data.. Data will be reported as soon as a complete year's worth of data is available.

- ☐ **Channel availability, moderate-use projects.** The percent of time that moderate commercial-traffic navigation channels are available to commercial users. There are approximately 97 moderate-use projects that are defined as those passing 1-10 million tons of cargo per year.

- ☐ **Channel availability, low-use projects.** The percent of time that low commercial-use channels, harbors and locks are available to all current users. There are about 1,000 low-use projects that are defined as those passing less than one million tons of cargo per year.

- ☐ **Percent of projects exceeding the facilities condition index (FCI) standard.** This measure assesses agency performance in meeting the goals of the President's Real Property Asset Management Initiative.

Construction measures for the navigation system

In FY 2008, the Corps instituted new performance measures and began gathering data, which will be reported as soon as a complete year's worth of data is available.

- ☐ **High-return investments.** The percent of funding to construct, replace and expand projects (excludes major repairs or renovations) that is allocated to high-return investments. High-return investment projects are defined as those with a benefit-to-cost ratio of 3.0 or greater.

- ☐ **Percent of reports recommending projects reflecting watershed principles.** Percent of Chief of Engineer's reports recommending projects for authorization that meet criteria for industry-accepted watershed principles. This measure expresses a long-term goal and assesses progress made in watershed-based planning.

- ☐ **Average annual benefits attributable to preconstruction engineering and design (PED) work completed in current fiscal year.** Total average annual benefits (present value) attributable to PEDs completed in the current fiscal year. This measure assesses the effectiveness of PED in promoting transportation savings.

- **Average annual benefits realized by construction projects completed in current fiscal year.** Total average annual benefits (present value) realized by construction projects completed in the current fiscal year. This measure assesses the effectiveness of the construction program in realizing transportation savings.

- **Percent change in funds required to complete all programmed work.** Percent change in constant-dollar balance to complete programmed work on all ongoing, budgeted construction projects. This measure assesses progress in reducing the backlog of ongoing, budgeted construction projects.

Performance Results

The program has been, and continues to be, successful in providing significant navigation benefits to the nation; however, the program faces significant challenges in its efforts to maintain the reliability of the inland and intracoastal waterways and coastal 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 increased costs in dredging operations, are affecting the Corps' ability to properly maintain its infrastructure and channels. In recent years, the 27 percent increase in dredging costs corresponds to the near doubling of fuel purchasing costs and similarly significant increases in steel and labor costs. Although other factors may limit or control channel availability, the ability to maintain an acceptable waterway width and depth through dredging operations has, by far, the greatest impact.

Performance Results – Operation and Maintenance

The O&M and MR&T – O&M appropriations were used to fund: 1) continued operation and maintenance of 241 locks at 195 locations and, 2) maintenance dredging of critical and high commercial-use reaches of the 11,000 miles of inland and intracoastal waterways. Not all waterways were maintained at their authorized dimensions. Many locks and dams forewent all but the most critically-needed maintenance, and some locks, dams and waterways were only maintained in caretaker status. The overall condition of the inland and intracoastal waterways is expected to decline, and projects will continue to experience lock closures due to mechanical breakdowns and failures.

Funding also enabled maintenance dredging of high-use, commercially important coastal ports, harbors and channels; critical harbors of refuge; and subsistence harbors. Many moderate- and low-commercial-use harbors and channels were not dredged and continue to shoal, further limiting vessel drafts. For the 59 highest-use coastal ports and harbors, channel conditions are expected to continue to decline due to large increases in the costs of doing business, particularly as they relate to fuel, steel and labor. Dredging costs have increased an estimated 27 percent over the past three years. For these projects, authorized channel depths (for the channel's center half) were available approximately 35 percent of the time during fiscal years 2005-2007. The condition of moderate-and low-use inland and intracoastal waterways, as well as coastal ports and harbors, is expected to continue to decline.

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

					FY 2008	
		FY 2005	FY 2006	FY 2007	Target	Actual
	Funding history in millions of dollars	$1,209	$1,211	$1,298	$1,265	$1,210
Inland waterways	Segment Availability (thousands of hours)	23	16	19	20	Note 2
	Ton-miles (in billions of ton – miles by fiscal year)	271	264	258	Note 1	Note 2
Coastal ports and harbors	Tons of cargo (in billions of tons)	2.304	2.337	2.298	Note 1	Note 2
	Channel availability, high use projects	38%	35%	32%	30%	Note 2
	Cost per ton (all channels)	$0.41	$0.39	$0.43	$0.45	Note 2

Note 1: The Corps does not set targets for this measure.

Note 2: Data not available at time of printing.

Performance Results – Construction and Investigations

Investigations funding, used at various locations throughout the nation, continued the study and design of navigation improvements to increase economic benefits and reduce transportation costs.

Construction funding for inland waterways was used to continue: 1) major repairs, construction, or replacement of locks and dams; 2) deficiency corrections; and 3) dam safety assurance, seepage control and to correct static instability. Construction funding for coastal navigation projects was used for channel deepening and improvement projects Additional construction funding was used to construct dredged material and beneficial use placement sites as well as to mitigate shoreline damages caused by navigation projects.

Flood Risk Management

Objective: To reduce the risk of damages and risk to public safety due to flooding and coastal storms through the safe operation of flood damage reduction projects, as authorized.

Funding History: The first row of Table 5 displays operation and maintenance funding for flood and coastal storm damage reduction. The first row of Table 6 shows construction program funding.

Performance Indicators: To assist the Corps in measuring its progress in meeting the Goal 3 objective, the Corps uses performance indicators that relate to operation and maintenance activities as well as to the construction program for flood and coastal storm damage reduction. Beginning in FY 2008, performance is measured in both the construction appropriation and the operation and maintenance appropriation. The indicators are described below and their measures are shown in Tables 5 and 6.

Operations and maintenance measures for the flood risk management program

- ☐ **Operating projects in zones 21-25 (High Risk).** The percent of operating projects (e.g., dams, levees, channels, flood gates) in zones 21-25 of the relative risk ranking matrix.
- ☐ **Operating projects in zones 1-6 (Low Risk).** The percent of operating projects (e.g., dams, levees, channels, flood gates) in zones 1-6 of the relative risk ranking matrix.

- ☐ **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; shown as a percentage (cost of O&M divided by the cost of damages prevented).

Construction measures for the flood risk management program

- ☐ **Additional people protected.** The percent increase, in total affected population with reduced risk at project design, attributed to completion of projects in the current fiscal year.
- ☐ **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.
- ☐ **Ten-year moving average.** The 10-year moving average of actual flood-damage reduction benefits attributable to completed Corps flood control projects.
- ☐ **Increase in benefits realized.** The total percent increase in the present value of total benefits realized from construction work completed in the applicable fiscal year.
- ☐ **Dam safety projects.** The percent of 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.

Performance Results

The funds received for FY 2008 were used to operate and maintain federal projects, and to inspect federal projects that were turned over to local sponsors. Funding allowed the coordination of federal reservoir operating schedules with private reservoirs within the basin. Projects operated in their targeted relative risk zones as represented by the indicator performance measures found in Table 10.

Funding was also used to support dam safety program functions. This included the following: 1)monitoring and evaluating performance (instrumentation) of all dams; 2) accomplishing routine dam safety-related maintenance and repairs; 3) performing all required inspections (periodic, post-earthquake, high-pool, etc.); 4) preparing Emergency Action Plans (EAPs); 5) performing site-specific dam safety training of project personnel; and 6) implementing force protection security features.

Table 5 – Operations and Maintenance – Coastal and Flood Damage Prevented

		FY 2005 Note 1	FY 2006 Note 1	FY 2007 Note 1	FY 2008 Target	FY 2008 Actual
	Funding history in millions of dollars	$1,193	$1,512	$1,774	$566	$678
Operations & Maintenance	Operating projects in zones 21-25 (High Risk)	Note 2			96	96
	Operating projects in zones 1-6 (Low Risk)				49	49
	Marginal cost of operations				1.25%	1.25%

Note 1: Prior-year funds were for the total of all expenditures in the Coastal and Flood Damage Reduction Program and should not be compared to the FY 2008 O&M expenditures.

Note 2: New measure for FY 2008, the first year data are collected.

Performance Results – Construction

A portion of FY 2008 funds were targeted to complete the following three projects; however, due to a variety of reasons, they were not completed during this fiscal year.. The new schedules call for Des Plaines River, IL, completion in 2014; Rio Puerto Nuevo, PR, completion in 2019; and Cedar Hammock, Wares Creek, FL, completion in 2010.

The work on the SPRA continued during FY 2008. The total number of flood damage reduction dams with completed SPRAs increased to 277. The percentage of dams in DSAC I, II and III decreased from 55.7 percent in FY 2007 to 45 percent at the end of FY 2008, with the identification of more DSAC IV dams. The number of dams with completed SPRAs exceeded the target 34 percent; however, estimated relative loss of life per dam increased. It is expected that this number will decrease in FY 2009, as all SPRAs are completed and interim risk reduction plans are implemented at the DSAC I and II dams.

Table 6 – Construction & Investigation – Coastal and Flood Damage Prevented

		FY 2005 Note 1	FY 2006 Note 1	FY 2007 Note 1	FY 2008 Target	FY 2008 Actual
	Funding history in millions of dollars	$1,193	$1,512	$1,774	$1,169	$1,107
Construction	Additional people protected (in thousands)	24	121	142	171	0
	Flood damage prevented (in millions of dollars)	Note 2	$56.1	$55.6	Note 5	
	Ten-year moving average (in millions of dollars)	$21,400	$20,094	$20,096		
	Increase in benefits realized	Note 3			18.1 (5.2%)	0
	Dam safety projects	Note 4		55.7%	56%	45%
	Relative loss of life			0.808	0.770	.949
	DSAC I, II and III projects			10	12	12
	SPRA assessments completed	61	61	61	70	94

Note 1: Prior-year funds were for the total of all expenditures in the Coastal and Flood Damage Reduction program and should not be compared to the FY 2008 construction expenditures.

Note 2: This measure was effective at the beginning of FY 2006.

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

Note 4: Data not available prior to FY 2007.

Note 5: 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.

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

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

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

Performance Indicators: To measure success in attaining the objectives shown above, the Corps 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 acres of designated Corps-administered mitigation lands that meet mitigation requirements, divided by the total number of acres of designated Corps-administered mitigation lands. The measure can also be the number of pounds of fish (or the number of individual fish) produced in a mitigation hatchery, divided by the number of fish required to be produced at a mitigation hatchery in order to meet the mitigation requirement.
- **Endangered species protection.** The percent of Corps operating projects, with Endangered Species Act requirements, for which the Corps is responsible. .
- **Cultural resources management.** The percent of Corps operating projects that meet 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 in a sustainable condition, divided by the total number of Corps fee-owned acres. The result provides an indicator of the condition of all Corps fee-owned acres. "Sustainable" is defined as meeting the desired state to be classified as healthy and viable; 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 established 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. These inventories are necessary for sound resource management decisions and strategy development. The percentage of acres on which level-one inventories have been completed is used to evaluate the relative performance in this measure.
- **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 the Corps' commitment to fully integrate environmental stewardship in the management of operating projects. The measure is expressed as a percentage; it 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 concept is represented by program costs recovered in cents-on-the- dollar. The 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 decrease has reduced the Corps' capability to meet overall target performance objectives. Additionally, shifts in program priorities have influenced or controlled the results obtained for specific measures. The Corps continued to emphasize program elements required by statute and regulation, such as mitigation, endangered species and cultural resource management initiatives.

The endangered species protection measure was added as a performance indicator in FY 2007, and baseline data have been collected for the first time in FY 2008.

The emphasis on mandated initiatives, increased requirements in support of the Endangered Species Act and Mitigation Compliance, as well as the declining funding trend, have resulted in reduced levels of management and maintenance of land conditions over the past four years. This is reflected in a decrease in the amount of healthy and sustainable acreage. Performance in this measure, which represents basic care of the public lands in accordance with the National Environmental Policy Act, remained at only 18 percent in FY 2008. There was no improvement from FY 2007, and a 3 percent decrease from FY 2006 was recorded. The funding shortfall contributed to "poor" and "flat" performances, respectively, in the measures for completion of both natural resource inventories and master plans. Collectively, level-one natural resource inventories and master plans support responsible land management; without significant improvement in the number of inventories and plans completed, the risk of failing to protect national assets increases.

Table 7 – Environmental Stewardship Indicators

				FY 2008	
	FY 2005	FY 2006	FY 2007	Target	Actual
Funding history in millions of dollars	$146	$124	$113	$110	$125
Mitigation compliance	76%	61%	86%	100%	100%
Endangered species protection	Note 1			100%	100%
Cultural resource management	Note 2		63%	72%	72%
Healthy and sustainable acreage	37%	21%	18%	18%	18%
Level-one natural resources inventory completed	33%	38%	40%	41%	38%
Master plans completed	32%	27%	27%	27%	27%
Efficiency (in cents-on-the-dollar)	$0.09	$0.10	$0.12	Note 3	Note 4

Note 1: This measure becomes effective in FY 2008.

Note 2: This measure was added at the end of FY 2006; FY 2007 is the first year of complete data.

Note 3: In order to ensure that revenue generation is not emphasized at the expense of sustainability, the Corps does not set annual efficiency targets. This indicator is used for trend analysis.

Note 4: Data not available at time of printing

Hydropower

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

Funding History: The first row of Table 8 shows capital improvements and operation and maintenance expenditures for the hydropower program over the past three-year period.

Performance Indicator: The program's objective 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 to measure progress in attaining this objective. Performance indicator results and targets for the year are displayed in Table 8.

- **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.

The Corps developed new performance measures and began data-gathering in FY 2008. Data will be reported as soon as a complete year's worth of information is available.

- **Percent of generating capacity that has a major generator- or turbine-related component rated in poor condition.** Major components include the generator, turbine runner, governor, transformer, circuit breaker, exciter, compressed air system, emergency closure gates and valves, surge arresters and batteries. The long-term goal is to reduce generating capacity rated as "poor" to less than 10 percent over the next 10 years. Equipment condition assessments will be performed by the hydroAMP (Hydropower Asset Management Partnership) Condition Assessment tool.
- **Hydropower plant O&M reviews.** Each year, a number of hydropower facilities undergo an annual power O&M review. This target is measured as a percentage of the total number of reviews completed for facilities that require a review.
- **Operation and maintenance costs for power.** The Corps is a member of the Electric Utilities Cost Group (EUCG) Benchmarking Consortium, which consists of hydropower producers from across the industry. EUCG benchmarking data are used to produce annual benchmarking reports for the O&M cost of power production. The target is that O&M costs not increase annually beyond the five-year rolling average, plus or minus 5 percent.
- **Electrical reliability standards met.** The percent of Federal Energy Regulatory Commission (FERC) and the National Electric Reliability Council-approved electric reliability standards that are met or exceeded by the program. The FERC has no jurisdiction over the Corps' hydropower program; however, the Corps takes reliability seriously and has voluntarily chosen to comply with all applicable FERC standards, subject to the availability of resources.

Performance data for these new performance indicators were originally anticipated in FY2008; however, the processes needed to capture the data for each performance indicator with missing data, were not fully developed by the end of the 2008 fiscal year. The hydropower program's electric reliability compliance plan is still under review and will be implemented in the first half of FY 2009. Costs data for O&M benchmarking will always lag by one year due to data availability and annual reporting dates. A national project delivery team to perform hydropower O&M power reviews was not established, as intended, in FY 2008. A draft program management plan for power reviews in FY 2009 is under consideration. Condition assessments of all major generating components were not completed in FY 2008. The hydropower program's condition assessment tool was utilized on only some components for which funds were requested. Historical and/or current period data for each of these performance indicators will be provided in the FY 2009 annual report.

Performance Results

Table 8 shows an increase in FY 2008 funding for the hydropower program. Approximately 40 percent of appropriations planned for the hydropower program did not go toward performance improvements, e.g., replacements or reduction in backlog maintenance. Instead, funds were used to mitigate impacts on endangered fish species in the Pacific Northwest. The percent of time hydropower generating units were actually available to produce power essentially remained the same as the previous year. The same is true for the percent of time units were available during peak power-demand periods. The margin between these two performance indicators has decreased steadily over the historical period. As the margin between availability and peak availability narrows, system maintenance and operating costs increase. The industry standards for availability and peak availability are 98 and 95 percent, respectively. Table 8 shows program performance for availability and peak availability to be approximately 12 and 8 percentage points below the industry standard, respectively, for FY 2008. The hydropower program standard metric used for forced outages is 2 percent primarily because of funding constraints. The program's forced outage performance is 3.1 percentage points above the standard, and 1.6 percentage points above the FY 2008 target.

Table 8 – Hydropower Indicators

				FY 2008	
	FY 2005	FY 2006	FY 2007	Target	Actual
Funding history in millions of dollars	$285	$288	$228	$264	$237
Percent of time units are available	84.54%	86.95%	84.35%	85%	85.73%
Percent of time available during periods of peak demand	87.24%	88.69%	84.26%	85%	86.77%
Percent of time units are out of service due to unplanned outage	4.66%	3.73%	4.67%	4.55%	5.08%

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 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 progress in meeting the Corps' recreation efficiency, service and availability objectives. The indicators are explained on the following page.

- **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.** Measures the capacity of facilities to provide recreation opportunities, expressed in millions of days/nights 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. (Formerly titled, Customer Satisfaction, this measure has been revised to focus on the visitor's experience related to service as opposed to the condition of the facility. A separate measure, referencing visitor centers, is no longer used; visitor centers are a component of the 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, who indicate their experience was "fair to good." (Formerly titled, Facility Conditions, this measure was renamed and slightly modified to emphasize service to the public. The quality of a visitor's experience and satisfaction with Corps' facilities are directly related to the facility condition.)

Performance Results

Funding for the program decreased in inflation-adjusted terms from FY 2007 to FY 2008. As a result, most performance measures declined or, at best, remained the same. While visits remained essentially unchanged at 2,476 Corps-managed parks, there was a resulting loss in over $33 million in NED benefits. Only 49 percent of people who visited Corps parks were served at acceptable service levels.

In order to mitigate the results of reduced funding, the Corps has maintained a two-part strategy consisting of: 1) reduced-service levels, and 2) reduced recreation opportunities caused by the partial or complete closing of parks. With increasing demand, the Corps has resorted to reductions in contract services and daily operating hours, as well as shortened recreation seasons. A survey of operations project managers disclosed 59 partial-season closures, and 15 full closures, program-wide, during this fiscal year.

[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 user's willingness to pay for federal or federally-assisted recreation resources. The unit-day-value is estimated at the park (recreation area) level by evaluating each park according to a set of published criteria. By applying a carefully thought-out and adjusted unit-day-value to estimated use, an approximation can be obtained for use as an estimate of project recreation benefit (i.e., NED benefits = Unit Day Value X Recreation Use in Visitor Days).

Table 9 – Recreation Indicators

	FY 2005	FY 2006	FY 2007	FY 2008 Target	FY 2008 Actual
Funding history in millions of dollars	$292	$291	$299	$267	$266
Total NED benefits (in millions of dollars)	$1,243	$1,271	$1,353	$1,126	$1,320
Benefit-to-cost ratio	4.25	4.46	4.49	4.22	4.47
Cost recovery	16%	16%	16%	16%	16%
Park capacity (in millions of days)	74	74	74	74	74
Number of visitors (in millions of visits)	133	131	132	132	132
Visitor health and safety services	51%	50%	50%	49%	49%
Facility service	48%	48%	48%	48%	48%

Water Supply

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

Funding History: The first row of Table 10 displays funding for the water supply program.

Performance Indicator: To assist in gauging 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 available for water supply.
- ☐ **Acre-feet under contract.** Of the acre-feet available for water supply, this number represents the total number of acre-feet under contract with state and 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.
- ☐ **Cost available for recovery.** The Corps seeks proportional reimbursement of capital cost for that portion of the reservoir allocated for water supply. Cost available for recovery is the total estimated capital cost of water supply allocations.
- ☐ **Cost recovered.** Costs assigned to the water supply storage space that has been, or is, in the process of being recovered through repayment agreements.
- ☐ **Percent of cost recovered.** The percentage of cost available for recovery compared to cost recovered.

The Corps developed the following performance indicators at the end of FY 2007.

- ☐ **Administrative yearly cost.** Annual cost to collect fees and administer contracts.
- ☐ **Administrative yearly cost (input) per acre-foot of storage (output).** This efficiency measure describes the cost to provide water storage.

Performance Results

The current funding level provides the minimum amount necessary to continue the water supply program on a caretaker basis. It does not commit the funds required to generate the benefits that could be produced with adequate funding. For example, funds are not available to conduct required sedimentation surveys; yield analysis studies to assess the effect of recent droughts; or, studies of water supply reallocation possibilities. These studies would help solve the water supply needs in many communities across the nation.

Table 10 – Acre-Feet of Water Supply

				FY 2008	
	FY 2005	FY 2006	FY 2007	Target	Actual
Funding history in millions of dollars	$2	$2	$2.5	$4	$3
Acre-feet available (in millions of acre-feet)	9.761	9.936	9.379	9.6	9.2
Acre-feet under contract (in millions of acre-feet)	9.356	9.936	9.083	9.4	8.9
Percent under contract	95.9%	94.5%	96.8%	96.9%	96.7%
Costs available for recovery (in millions of dollars)	$1,459.8	$1,492.9	$1,282.3	$1,300.0	$1,285.2
Costs recovered (in millions of dollars)	$1,096.1	$1,117.9	$868.4	$910.0	$933.2
Percent recovered	75.0%	74.9%	67.8%	70.0%	72.2%
Administrative yearly cost (in millions of dollars)	Note 1			$1.3	$1.2
Administrative yearly cost per acre-foot of storage				$0.14	$0.13

Note 1: These efficiencies measures were established at the end of FY 2007; FY2008 is the first year that data are available.

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

The goal's purpose is to manage the risks associated with all types of hazards, and to increase the civil works emergency management program's responsiveness to disasters in support of federal, state and local emergency management efforts. Disaster preparedness and response capabilities are not limited to water-related events, but also draw on the Corps' engineering skills and management capabilities in responding to a broad range of natural disasters and national emergencies. The Corps is mindful that 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 indicators to assist Corps personnel in determining progress toward meeting the Corps' emergency management objectives. Indicators are explained below.

- **Planning response team readiness.** The Corps established designated planning and response teams (PRT) that are organized to provide rapid emergency response within 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 floods or storms under authority of Public Law 84-99. This measure is determined by the percentage of projects damaged during a fiscal year, and 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 their state of maintenance. 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

During FY 2008, the Corps maintained 41 national planning and response teams (PRT) at a readiness rate of 94 percent fully manned, trained and equipped. 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 exceeded the target rating due to increased focus on team training and team reorganization for more efficient disaster response.

The Corps implemented several new initiatives to improve response and recovery activities under the National Response Framework. Initiatives included the establishment of national commodities PRTs to manage the planning and delivery of ice, water and meals ready-to-eat to disaster victims in a timely manner. Additionally, the Corps integrated its housing PRTs into FEMA's Individual Assistance-Technical Assistance Contract Branch to better provide the engineering and construction management support needed for effective interim housing solutions for disaster victims. The Corps also awarded new Advanced Contract Initiative contracts for debris removal, These contracts include a small business component, which allows the Corps to better tailor contracts to leverage the capabilities and agility of small businesses in a disaster area.

During FY 2008, the Corps conducted 71 percent (total of 371) of the scheduled inspections of flood damage reduction projects. Performance below the target objective resulted from the application of more technically rigorous inspections, which limited the number of scheduled inspections that could be conducted. Of the total projects inspected, 86 percent received project condition ratings of "minimally acceptable" or better. Major flooding in the Midwest resulted in damages to 82 projects in Iowa, Illinois, Indiana, Missouri, Nebraska and Arkansas. Continued high water in the Midwest due to Hurricanes Gustav and Ike has prevented expeditious repair of the damaged projects. As of the printing of this report, investigation and engineering and design are ongoing for all the projects; interim repairs to close breaches have been completed on three critical projects.

Overall, the Corps achieved an 85 percent performance rating for the completion of project repairs prior to the next flood season. Repairs for all damaged projects have been funded, and construction will be completed during the fall and winter of 2008, prior to the spring flood season.

In response to the severe flooding in the Midwest, the Corps created a Regional Interagency Levee Task Force, which establishes an interagency partnership with regional federal, state and local agencies in the flood-impacted areas. Its mission is to expedite and evaluate levee repairs and, where applicable, provide nonstructural solutions to reduce future flood risks and improve coordination of floodplain management.

Table 11 – Emergency Preparedness Indicators

				FY 2008	
	FY 2005 Note 1	FY 2006 Note 1	FY 2007 Note 1	Target Note 2	Actual Note 1
Funding history in millions of dollars	$348	$5,408	$1,561	$32	$847
Planning response team readiness	82%	92%	72%	70%	94%
Project inspection performance	96%	93%	97%	80%	71%
Damaged project restoration	75%	65%	29%	20%	85%
Project condition ratings	94%	95%	90%	80%	86%

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

Note 2: The funding target for FY 2008 was to fund preparedness activities.

Possible Future Effects of Existing Conditions

Flood Risk Management

The program's goal 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, which include 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 emergency response operations, and subsequent long-term recovery efforts, increased from an average of $444 million during the 1980s to $3.75 billion over the period1995 – 2004.

Significant investments are required to identify, evaluate, and maintain existing flood infrastructure (e.g., levees, dams, beaches). This includes accounting for changes 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 infrastructure elements must function as a holistic system to be effective. In addition to infrastructure maintenance, 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 241 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 reliable movement of people and commerce along its waterways, sea lanes and intermodal 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 inland waterway locks are over 100 years old, and 122 are over 50 years old. In recent years, maintenance deferrals and delays in repairs and replacement of aging locks have driven up unscheduled lock closures. For example, closures due to mechanical breakdowns increased from 9,100 hours per year in FY 2000 to 27,100 hours per year in FY 2007. 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. Additionally, 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 high-volume channels and harbors were available only 35 percent of the time in FY 2006 and 32 percent of the time in FY 2007. Inadequate channels affect the economy by imposing costs on vessel operators that, in turn, are reflected in the cost of imports and the price of U.S. exports. On average, failure to maintain one foot of channel depth increases container shipping costs by about 6%. Additional economic costs will accrue by postponing investment in deeper and wider channels that address projected future demand.

Environment: Aquatic Ecosystem Restoration

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

The call for aquatic ecosystem restoration is great; however, the challenge is to strike a sustainable balance between the often conflicting demands for use, and control, of water resources. In FY 2008, the Corps continued its research and development effort to field environmental benefit assessments that more objectively evaluate aquatic ecosystem restoration projects. This will facilitate more consistent results and the ability to effectively build and evaluate a national program. Until a standard metric is developed, the Corps will continue to work with other agencies and invest in research and development to more objectively evaluate disparate ecosystem restoration projects and 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 USACE balance sheet includes total assets that exceed $48 billion, which is an approximate 10.8 percent increase over FY 2007. Two asset categories – Fund Balance with Treasury and General Property, Plant and Equipment – make up just over 85 percent of total assets, with values of $15.2 billion and $26.9 billion, respectively.

Fund Balance with Treasury increased $4.1 billion (36.5%). The USACE received supplemental appropriations in the general fund on June 30, 2008, in the amount of $606 million and on September 30, 2008, in the amount of $2.8 billion. The latter was used for increased disaster relief and recovery efforts related to hurricanes, floods, and other natural disasters along the Gulf of Mexico.

Liabilities are approximately $4.9 billion, comprised primarily of other liabilities, accounts payable and environmental liabilities, which represent approximately 94.6 percent of the total.

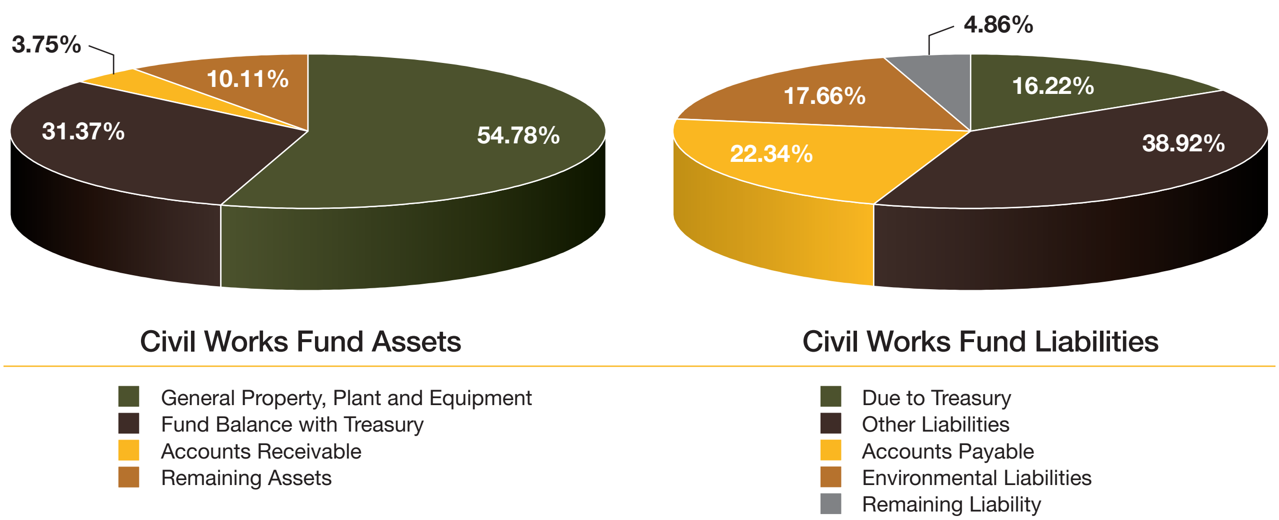
Figure 4 – Select Civil Works Fund Assets and Liabilities

(Amounts in billions)

Asset Type	**2008 Consolidated**	**2007 Consolidated**	**Change**	**Percentage of FY 2008 Assets**
General Property, Plant and Equipment	$ 26.61	$ 26.73	$ (.12)	54.78%
Fund Balance with Treasury	15.24	11.17	4.07	31.37%
Accounts Receivable	1.82	2.52	(.70)	3.75%
Remaining Assets	4.91	4.16	0.75	10.11%
Total Assets	**$ 48.58**	**$ 44.58**	**$ 4.81**	**100%**

Liability Type	**2008 Consolidated**	**2007 Consolidated**	**Change**	**Percentage of FY 2008 Liabilities**
Due to Treasury	$ 0.90	$ 1.61	$ (.71)	16.22%
Other Liabilities	2.16	0.85	1.31	38.92%
Accounts Payable	1.24	0.97	.27	22.34%
Environmental Liabilities	0.98	0.66	0.32	17.66%
Remaining Liability	.27	0.26	.001	4.86%
Total Liabilities	**$ 5.55**	**$ 4.35**	**$ 1.20**	**100%**

Figure 5 – Select Civil Works Fund Assets and Liabilities



Stewardship Information

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

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.

CONSOLIDATED BALANCE SHEET

For the years ended September 30, 2008 and 2007 (Amounts in thousands)	**2008 Consolidated**	**2007 Consolidated**
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Notes 1.V. & 3)	$ 15,235,393	$ 11,165,472
Investments (Note 4)	4,789,604	4,038,353
Accounts Receivable (Notes 1.V. & 5)	881,283	873,119
Total Intragovernmental Assets	$ 20,906,280	$ 16,076,944
Cash and Other Monetary Assets (Note 6)	$ 121	$ 1,371
Accounts Receivable, Net (Note 5)	940,308	1,644,574
Inventory and Related Property, Net (Notes 1.V. & 7)	126,665	121,704
General Property, Plant and Equipment, Net (Notes 1.V. & 8)	26,614,893	26,734,595
Other Assets (Note 1.O.)	663	494
TOTAL ASSETS	$ 48,588,930	$ 44,579,682
Stewardship PP&E (Note 9)		
LIABILITIES (Note 10)		
Intragovernmental:		
Accounts Payable (Notes 1.V. & 1.W.)	$ 302,141	$ 128,411
Debt (Note 11)	12,130	12,917
Due to Treasury - General Fund (Note 13)	900,089	1,617,061
Other Liabilities (Notes 13 & 14)	757,948	257,462
Total Intragovernmental Liabilities	$ 1,972,308	$ 2,015,851
Accounts Payable - Public (Note 1.V.)	$ 934,993	$ 839,715
Federal Employee and Veterans' Benefits (Note 10)	253,651	251,887
Environmental and Disposal Liabilities (Note 12)	982,112	656,123
Other Liabilities (Notes 1.V., 13 & 14)	1,403,270	588,926
TOTAL LIABILITIES	$ 5,546,334	$ 4,352,502
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations - Other Funds (Note 1.V.)	10,316,712	8,336,552
Cumulative Results of Operations - Earmarked Funds (Note 19)	7,583,975	6,129,552
Cumulative Results of Operations - Other Funds (Note 1.V.)	25,141,909	25,761,076
TOTAL NET POSITION	$ 43,042,596	$ 40,227,180
TOTAL LIABILITIES AND NET POSITION	$ 48,588,930	$ 44,579,682

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

CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2008 and 2007 (Amounts in thousands)	2008 Consolidated	2007 Consolidated
Program Costs		
Gross Costs (Note 15)	$ 9,521,316	$ 8,615,546
(Less: Earned Revenue)	(2,201,151)	(3,445,687)
Net Program Costs	$ 7,320,165	$ 5,169,859
Net Cost of Operations	$ 7,320,165	$ 5,169,859

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2008 and 2007 (Amounts in thousands)	2008 Earmarked Funds	2008 All Other Funds	2008 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 6,310,601	$ 25,580,027	$ 31,890,628
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	0	0
Beginning balances, as adjusted	6,310,601	25,580,027	31,890,628
Budgetary Financing Sources:			
Appropriations used	0	6,031,859	6,031,859
Nonexchange revenue	1,781,742	12,741	1,794,483
Transfers-in/out without reimbursement	(722,457)	881,449	158,992
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	0	320	320
Transfers-in/out without reimbursement	(424,079)	349,148	(74,931)
Imputed financing from costs absorbed by others	0	244,698	244,698
Total Financing Sources	$ 635,206	$ 7,520,215	$ 8,155,421
Net Cost of Operations	638,406	6,681,759	7,320,165
Net Change	$ (3,200)	$ 838,456	$ 835,256
Cumulative Results of Operations	$ 6,307,401	$ 26,418,483	$ 32,725,884
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 8,336,552	$ 8,336,552
Prior Period Adjustments:			
Changes in accounting principles (Note 1.V.)	0	0	0
Beginning balances, as adjusted	$ 0	$ 8,336,552	$ 8,336,552
Budgetary Financing Sources:			
Appropriations received	0	8,004,306	8,004,306
Appropriations transferred-in/out	0	12,500	12,500
Other adjustments (rescissions, etc.)	0	(4,787)	(4,787)
Appropriations used	0	(6,031,859)	(6,031,859)
Total Budgetary Financing Sources	$ 0	$ 1,980,160	$ 1,980,160
Unexpended Appropriations	0	10,316,712	10,316,712
Net Position	$ 6,307,401	$ 36,735,195	$ 43,042,596

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2008 and 2007 (Amounts in thousands)	2007 Earmarked Funds	2007 All Other Funds	2007 Consolidated
CUMULATIVE RESULTS OF OPERATIONS			
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)
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	1,590,272	(239)	1,590,033
Transfers-in/out without reimbursement	16,503	111,960	128,463
Other Financing Sources (Non-exchange):			
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	$ 1,862,920	$ 4,692,568	$ 6,555,488
Net Cost of Operations	932,984	4,236,875	5,169,859
Net Change	$ 929,936	$ 455,693	$ 1,385,629
Cumulative Results of Operations	$ 6,310,601	$ 25,580,027	$ 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	$ 33,916,579	$ 40,227,180

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2008 and 2007 (Amounts in thousands)		2008 Combined		2007 Combined
BUDGETARY FINANCING ACCOUNTS				
Unobligated balance, brought forward, October 1	$	9,902,226	$	9,445,339
Recoveries of prior year unpaid obligations		621,715		491,474
Budget authority				
Appropriation		9,566,609		7,503,579
Spending authority from offsetting collections				
Earned				
Collected		9,766,479		10,417,319
Change in receivables from Federal sources		(33,018)		(1,792,986)
Change in unfilled customer orders				
Advance received		596,564		(20,162)
Without advance from Federal sources		1,314,780		(491,895)
Expenditure transfers from trust funds		766,000		0
Subtotal	$	21,977,414	$	15,615,855
Nonexpenditure transfers, net, anticipated and actual		182,838		78,583
Temporarily not available pursuant to Public Law		(10,000)		(10,000)
Permanently not available		(5,575)		(732)
Total Budgetary Resources	$	32,668,618	$	25,620,519
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$	9,336,767	$	7,281,595
Reimbursable		11,639,134		8,436,698
Subtotal	$	20,975,901	$	15,718,293
Unobligated balance:				
Apportioned		10,483,144		8,954,424
Exempt from apportionment		998,075		937,561
Subtotal	$	11,481,219	$	9,891,985
Unobligated balance not available		211,498		10,241
Total status of budgetary resources	$	32,668,618	$	25,620,519
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$	5,791,649	$	5,401,044
Less: Uncollected customer payments from Federal sources, brought forward, October 1		(4,136,258)		(6,421,138)
Total unpaid obligated balance	$	1,655,391	$	(1,020,094)
Obligations incurred net	$	20,975,901	$	15,718,293
Less: Gross outlays		(16,752,941)		(14,836,212)
Less: Recoveries of prior year unpaid obligations, actual		(621,715)		(491,474)
Change in uncollected customer payments from Federal sources	$	(1,281,760)	$	2,284,881
Obligated balance, net, end of period				
Unpaid obligations		9,392,894		5,791,649
Less: Uncollected customer payments from Federal sources		(5,418,018)		(4,136,258)
Total, unpaid obligated balance, net, end of period	$	3,974,876	$	1,655,391
Net Outlays:				
Gross outlays	$	16,752,941	$	14,836,212
Less: Offsetting collections		(11,129,045)		(10,397,157)
Less: Distributed Offsetting receipts	$	(638,940)	$	(521,925)
Net Outlays		4,984,956		3,917,130

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). 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 GAAP.

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 the 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.

USACE received borrowing authority from the U.S. Treasury 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 consist of resources for which USACE maintains stewardship accountability and responsibility to report but are not available for USACE operations. 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 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. The main sources of exchange revenue are customer orders (reimbursable agreements), cost sharing revenue, and long-term water storage agreements.

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 reduces deferred revenue and recognizes revenue as goods or services are provided.

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 advance accounts. USACE withdraws the sponsor's cash account, which is an escrow account. Revenue is recognized at the time of the withdrawal for cost incurred.

Revenue from long-term water storage agreements is based on the cost of construction to be recouped by USACE from the municipality. Annually, CEFMS recognizes revenue on the agreement, which can be amortized from two to fifty years depending on the contract specifications.

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

1.F. Recognition of Expenses

USACE recognizes expenses in the period incurred or consumed. 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 within the USACE Civil Works Program in these consolidated 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 fiduciary transaction 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 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 do 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. 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.J. 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*.

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.

Related property includes Operating Materials &Supplies (OM&S). OM&S are valued at moving average cost. 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.

1.K. 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.L. General Property, Plant and Equipment

With the exception of buildings and structures related to hydropower projects which are capitalized regardless of cost, 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.

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, entitled *Support for Recorded Book Cost of General Property, Plant & Equipment Assets* (MOA).

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.M. 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.N. 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.O. Other Assets

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

1.P. 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's policy, which is consistent with SFFAS No. 5.

1.Q. 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.R. Federal Employees and Veteran's Benefits.

The Federal Employees and Veteran's Benefits consist of the actuarial liability for Federal Employees Compensation Act benefits and accrued civilian severance pay. 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.

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 with other Federal entities.

1.V. Prior Period Adjustments and Changes in Presentation

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 the financial statements starting in fiscal year 2007. The effect of this change is reported as a change in accounting principle in the fiscal year 2007 Statement of Changes in Net Position.

1.W Accounts Payable

Accounts payable are the amounts owed, but not yet paid, by USACE for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. USACE has no known delinquent accounts payable.

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.

1.Y. Revisions and Reclassifications

The comparative financial statements and accompanying note disclosures include revisions for the correction of clerical errors not material to the financial statements taken as whole. Additionally, the financial statements include amounts that have been reclassified to ensure consistency between the accounting periods.

1.Z. Changes in Accounting Policy

Prior to FY2008, USACE recorded interest receivable and an off-setting liability (reported as Due to Treasury General Fund) for the entire amount of LTWS agreements, which range from two to fifty years in duration. Effective FY 2008, USACE implemented a change in accounting policy, whereby only the current portion of interest receivable under these LTWS agreements is recorded in Accounts Receivable.

This accounting policy change resulted in a decrease in Accounts Receivable and a corresponding decrease in Due to Treasury General Fund for FY2008. If this policy change had been in effect for FY2007, the impact of this change in accounting policy would have been a $680.3 million reduction in Accounts Receivable and Due to Treasury General fund as of September 30, 2007. This change in the accounting policy had no impact on Cumulative Results of Operations and Net Cost of Operations for FY2008.

Note 2. Nonentity Assets

As of September 30	2008	2007
(Amounts in thousands)		
Nonentity Assets		
Intragovernmental Assets		
Fund Balance with Treasury	$ 10,331	$ 7,596
Accounts Receivable	3	3
Total Intragovernmental Assets	$ 10,334	$ 7,599
Cash and Other Monetary Assets	$ 121	$ 1,371
Accounts Receivable	908,914	1,617,715
Total Nonfederal Assets	$ 909,035	$ 1,619,086
Total Nonentity Assets	$ 919,369	$ 1,626,685
Total Entity Assets	$ 47,669,561	$ 42,952,997
Total Assets	$ 48,588,930	$ 44,579,682

Other Information

Asset accounts are categorized either as entity or nonentity. Entity assets 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. Deposit and suspense accounts are used to record amounts held temporarily until ownership is determined. The USACE is acting as an agent or custodian for funds awaiting distribution.

Intragovernmental Nonentity Accounts Receivable consists 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. The USACE does not have specific statutory authority to keep the receipts.

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. The Disbursing Officer acts as an agent for the U.S. Treasury.

Nonentity Accounts Receivable represents 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, including an offsetting custodial liability due to the U. S. Treasury and funds will be returned to the U.S. Treasury when collected. The USACE does not have specific statutory authority to keep the receipts.

Note 3. Fund Balance with Treasury

As of September 30		2008		2007
(Amounts in thousands)				
Fund Balances				
Appropriated Funds	$	12,835,109	$	9,293,495
Revolving Funds		1,369,281		1,178,590
Trust Funds		113,702		89,257
Special Funds		11,127		9,172
Contributed Funds		779,578		559,877
Other Fund Types		126,596		35,081
Total Fund Balances	$	15,235,393	$	11,165,472
Fund Balances Per Treasury Versus Agency				
Fund Balance per Treasury	$	15,314,980	$	11,252,881
Fund Balance per USACE		15,235,393		11,165,472
Reconciling Amount	$	79,587	$	87,409

Reconciling Amount

Fund Balance per USACE reported above does not include receipt accounts or cancelled appropriations, which USACE closed according to the *Treasury Financial Manual*. In addition, Fund Balance per USACE reported above does not include transfer funds where USACE is the child in a parent/child relationship. In accordance with OMB Circular 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 includes net disbursements for undistributed Intragovernmental Payment and Collection (IPAC) transactions. These are distributed to the appropriate funds the following month.

Other Fund Types consist of deposit accounts, borrowing authority and the suspense account established to finance Washington Aqueduct operations.

Status of Fund Balance with Treasury

As of September 30		2008		2007
(Amounts in thousands)				
Unobligated Balance				
Available	$	11,468,629	$	9,476,914
Unavailable		4,913,510		3,998,871
Obligated Balance not yet Disbursed		8,955,081		5,791,650
Nonbudgetary FBWT		10,053		8,481
Non FBWT Budgetary Accounts		(10,111,880)		(8,110,444)
Total	$	15,235,393	$	11,165,472

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 represents 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)*	2008 Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 4,790,360	Level Yield Calculation	$ (25,976)	$ 4,764,384	$ 4,909,917
Accrued Interest	25,220			25,220	25,220
Total Intragovernmental Securities	$ 4,815,580		$ (25,976)	$ 4,789,604	$ 4,935,137

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

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 used 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, per the authorized users for the individual trust funds.

The breakdown of total investments among the trust funds for FY 2008 is as follows: $4.6 billion in the Harbor Maintenance Trust Fund, $123.9 million in the Inland Waterways Trust Fund, and $118.3 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

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 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, 2008 and September 30, 2007, respectively.

Note 5. Accounts Receivable, Net

As of September 30 *(Amounts in thousands)*	**2008** Gross Amount Due	 Allowance For Estimated Uncollectibles	 Accounts Receivable, Net
Intragovernmental Receivables	$ 881,283	N/A	$ 881,283
Nonfederal Receivables (From the Public)	941,148	$ (840)	940,308
Total Accounts Receivable	$ 1,822,431	$ (840)	$ 1,821,591

As of September 30 *(Amounts in thousands)*	**2007** 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

Accounts Receivable, Net

Effective FY2008, USACE changed its accounting policy to exclude non-current interest receivable component of Accounts Receivable and the offsetting Due to Treasury General Fund liability related to Long-Term Water Storage agreements. For further discussion, refer to Note 1.Z., "Changes in Accounting Policy".

Note 1.I. Accounts Receivable describes methods used to estimate the allowance for uncollectible accounts.

Note 6. Cash and Other Monetary Assets

As of September 30	2008	2007
(Amounts in thousands)		
Cash	$ 23	$ 52
Foreign Currency	98	1,319
Total Cash and Foreign Currency	$ 121	$ 1,371

Other Information

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.

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.

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.

Note 7. Inventory and Related Property

As of September 30	2008	2007
(Amounts in thousands)		
Work in Process	$ 30,406	$ 15,586
Operating Materials & Supplies, Net	96,259	106,118
Total	$ 126,665	$ 121,704

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 as of September 30, 2008 and 2007. 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 are net of a $15 thousand revaluation allowance at both September 30, 2008 and 2007. 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 8. General Property, Plant & Equipment, Net

As of September 30 (Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
			2008		
Major Asset Classes					
Land	N/A	N/A	$ 8,912,388	$ N/A	$ 8,912,388
Buildings, Structures, and Facilities	S/L	20 - 100	28,620,411	(13,929,521)	14,690,890
Leasehold Improvements	S/L	lease term	41,016	(31,496)	9,520
Software	S/L	2-5 Or 10	86,305	(76,882)	9,423
General Equipment	S/L	5 - 50	1,487,133	(728,612)	758,521
Construction-in-Progress	N/A	N/A	2,203,089	N/A	2,203,089
Other			31,064	(2)	31,062
Total General PP&E			$ 41,381,406	(14,766,513)	26,614,893

Legend for Depreciation Methods:

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

As of September 30 (Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
			2007		
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

General PP&E

As of September 30, 2008 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.

In FY 2008, USACE received $79.7 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. In FY 2007, the amount received was $73.8 million.

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. 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 make up $9.7 billion of the book value of USACE's PP&E in FY 2008 and FY 2007.

During FY 2008, the decision was made to move $151.1 million in CIP costs associated with "Elk Creek Lake Project" to Expense. This dormant project, located at USACE Portland district, was authorized by the 1962 Flood Control Act for the purpose of flood control. In 1971, construction began on the project, but was shut down after completing only 33% of its design height 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. During the 4th Quarter FY2008, USACE "notched" the dam by blasting away the partially built dam structure, layer by layer, 200 feet across. The "notching" enabled fish passage along the Elk Creek bed before a permit to trap and haul the threatened Coho Salmon expired. No future economic benefit for flood control remains for the "notched" dam.

Other consists of assets awaiting disposal.

As of September 30, 2008 approximately $26.3 billion of the $41.4 billion acquisition value recorded in the PP&E line is being supported by alternate methods pursuant to the Memorandum of Agreement described in Note 1.L "General Property, Plant, and Equipment". As of September 30, 2007 approximately $26.3 billion of the $40.9 billion acquisition value recorded in the PP&E line is being supported by alternate methods pursuant to the Memorandum of Agreement described in Note 1.L "General Property, Plant, and Equipment".

Note 9. Stewardship PP&E

Heritage Assets

Heritage assets are property, plant and equipment (PP&E) that are unique for one of more of the following reasons: historical or natural significance; cultural, educational, or artistic (e.g., aesthetic) importance; or significant architectural characteristics.

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 to approximately 10,000 years ago, 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 Sacramento district to early farming structures in 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 did not acquire or withdraw any heritage assets during FY 2008 or FY 2007.

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general PP&E. Examples of stewardship land include land used as forests and parks, and land used for wildlife and grazing. The USACE currently does not have any land classified as stewardship land.

Note 10. Liabilities Not Covered by Budgetary Resources

As of September 30		2008		2007
(Amounts in thousands)				
Intragovernmental Liabilities				
Debt	$	12,130	$	12,917
Due to Treasury - General Fund		900,089		1,617,061
Other		215,888		214,406
Total Intragovernmental Liabilities	$	1,128,107	$	1,844,384
Federal Employee and Veterans' Benefits		253,356		251,584
Environmental Liabilities		982,112		656,123
Other		54,047		106,000
Total Liabilities Not Covered by Budgetary Resources	$	2,417,622	$	2,858,091
Total Liabilities Covered by Budgetary Resources	$	3,128,712	$	1,494,411
Total Liabilities	$	5,546,334	$	4,352,502

Other Information

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

Intragovernmental Liabilities – Debt is 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 11, "Debt," for additional details and disclosures.

Intragovernmental Liabilities – Due to Treasury - General Fund 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 Long Term Water Storage agreements. Budgetary resources are not required for custodial liabilities.

Intragovernmental Liabilities – Other includes Judgment Fund liabilities-Contract Dispute Act (CDA), and workmen's compensation liabilities under the Federal Employees Compensation Act (FECA). The USACE is seeking supplemental funding for CDA liability. The FECA liability will not be funded until FY 2009.

Federal Employee and Veterans' Benefits include actuarial liability for Federal Employee Compensation Act (FECA). Refer to Note 13, "Due to Treasury - General Fund and Other Liabilities," for additional details and disclosures. The FECA actuarial liability is a future funded expense and will be funded in future appropriations.

Environmental Liabilities include future funded expense for estimated cleanup costs for environmental liabilities. The liabilities will be funded in future appropriations. Refer to Note 12, "Environmental Liabilities and Disposal Liabilities," and Note 13, "Due to Treasury - General Fund and Other Liabilities," for additional details and disclosures.

Other Liabilities include contingent liability for probable losses totaling $54 million and $106 million at September 30, 2008 and 2007, respectively related to lawsuits filed against USACE and contingent liability based on percentage of tort, litigation and contract dispute claims. Contingent liabilities may be funded in future appropriations. Refer to Note 14 "Commitments and Contingencies" for additional details and disclosures.

Note 11. Debt

As of September 30 (Amounts in thousands)	2008 Beginning Balance	2008 Net Borrowing	2008 Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 12,917	$ (787)	$ 12,130

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

Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. USACE executed three promissory notes totaling $75.0 million with the U.S. Treasury for capital improvements to the Washington Aqueduct. 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. The USACE recognized a receivable for $12.7 million in principal and current interest due from Arlington County and the city of Falls Church, Virginia, September 30, 2008. 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. Actual cumulative amount of funds borrowed from the U.S. Treasury is $74.9 million of which $12.1 million is outstanding at September 30, 2008 and $12.9 million is outstanding at September 30, 2007. There were no withdrawals from the U.S. Treasury for FY 2008 or FY 2007. Total principal repayments in FY 2008 were $787.0 thousand and no capitalized interest. Total principal repayments in FY 2007 were $675.0 thousand and capitalized interest of $332.0 thousand.

Note 12. Environmental Liabilities and Disposal Liabilities

As of September 30		2008		2007
(Amounts in thousands)				
Other Accrued Environmental Costs - Other				
Formerly Utilized Sites Remedial Action Program, which was established to respond to radiological contamination from early US Atomic Energy and Weapons Program.	$	$969,347	$	637,872
Sonoma Firing Range and Underground Storage Tank Monitoring Wells, Mount Morris Dam, Bradford Island Landfill, John H. Kerr Dam and Reservoir, Missouri River Project, J. Strom Thurmond Project, Williston-Garrison Project, Midwestern Trading Site, and Fountain City Services.	$	12,765	$	18,251
Total	$	982,112	$	656,123

Other Information

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

The following laws and regulations are applicable for the environmental cleanup requirements: 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 used. 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 changes in estimated environmental liabilities currently necessary due to inflation, deflation, technology or applicable laws and/or regulations. Estimated liabilities can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology, or the identification of additional contamination sites.

For FY 2008, USACE recognizes current and noncurrent environmental liabilities for FUSRAP in the amount of $969.3 million at the following project sites: Ashland Site, Colonie Interim Storage Site Groundwater, Colonie Interim Storage Site Soils, Combustion Engineering Site, DuPont Chambers Works Site, Guterl Specialty Steel Site, Harshaw Chemical Company Site, Iowa Army Ammunition Plant FUSRAP Site, Latty Avenue Properties Site, Linde Air Products Site Groundwater, Linde Air Products Site Soils, Luckey Site Groundwater, Luckey Site Soils, Maywood Site Groundwater, Maywood Site Soils, Middlesex Sampling Plant Site Groundwater, Middlesex Sampling Plant Soils, Niagara Falls Interim Storage Site, Painesville Site, Seaway Industrial Park Site, Shallow Land Disposal Area Site, Shpack Landfill Site, St. Louis Airport Vicinity Properties Site, St. Louis Airport Site, St. Louis Downtown Site Accessible Soils, St. Louis Downtown Site Inaccessible Soils, Sylvania Corning Plant Site, W. R. Grace Curtis Bay Building 23 Site and W. R. Grace Curtis Bay Radioactive Waste Disposal Area Site.

For FY 2007, USACE recognizes current and noncurrent environmental liabilities for FUSRAP in the amount of $637.9 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 as of September 30, 2008, but the liability amounts are currently unknown and USACE cannot determine an estimable range of loss for additional contamination sites. 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, Niagara Falls Storage Site, Harshaw Chemical Company Site, Guterl Specialty Steel Site, Colonie Interim Storage Site Groundwater, Josyln Manufacturing, Scioto Laboratory, Superior Steel Site, and Sylvania Corning Plant.

USACE acknowledges reasonably possible contingent environmental liabilities related to FUSRAP as of September 30, 2007, but the liability amounts are currently unknown and USACE cannot determine an estimable range of loss for additional contamination sites. 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, Niagara Falls Storage Site, Former Harshaw Chemical Company Site, Guterl Specialty Steel Site, Colonie Interim Storage Site Groundwater, Josyln Manufacturing, Scioto Laboratory, and Seaway Industrial Park Site.

For FY 2008, USACE recognizes other environmental liabilities not related to FUSRAP in the amount of $12.8 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; Williston Landfill – Garrison Project in North Dakota; J. Strom Thurmond Project in Georgia; John H. Kerr Dam and Reservoir Firing Range and John H. Kerr Dam and Reservoir Contaminated Soil Sites in Virginia; Midwestern Trading Site in Illinois; Fountain City Service Base in Wisconsin.

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.

The USACE recognizes other environmental liabilities not related to FUSRAP but the liability amounts are currently unknown. The project site is: John H. Kerr Dam and Reservoir Tungsten Queen Mine in North Carolina.

Note 13. Due to Treasury – General Fund and Other Liabilities

As of September 30 *(Amounts in thousands)*	**2008** Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury-General Fund	$ 124,255	$ 775,834	$ 900,089
Advances from Others	$ 524,833	$ 0	$ 524,833
Deposit Funds and Suspense Account Liabilities	(273)		(273)
Disbursing Officer Cash	121		121
Judgment Fund Liabilities	167,624		167,624
FECA Reimbursement to the Department of Labor	20,337	27,806	48,143
Employer Contribution and Payroll Taxes Payable	17,500		17,500
Total Intragovernmental	$ 854,397	$ 803,640	$ 1,658,037
Accrued Funded Payroll and Benefits	$ 399,797	$ 0	$ 399,797
Advances from Others	134,797		134,797
Deferred Credits	755,426		755,426
Deposit Funds and Suspense Accounts	10,332		10,332
Contract Holdbacks	48,871		48,871
Contingent Liabilities	54,047		54,047
Total Other Liabilities	$ 2,257,667	$ 803,640	$ 3,061,307

As of September 30 *(Amounts in thousands)*	**2007** Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury –General Fund	$ 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
Employer Contribution and Payroll Taxes Payable	13,928	0	13,928
Total Intragovernmental	$ 344,482	$ 1,530,041	$ 1,874,523
Accrued Funded Payroll and Benefits	$ 356,720	$ 0	$ 356,720
Advances from Others	37,288	0	37,288
Deferred Credits	0	0	0
Deposit Funds and Suspense Accounts	7,596	0	7,596
Contract Holdbacks	81,322	0	81,322
Contingent Liabilities	106,000		106,000
Total Other Liabilities	$ 933,408	$ 1,530,041	$ 2,463,449

Due to Treasury General Fund and Other Liabilities

Effective FY2008, USACE changed its accounting policy to exclude non-current interest receivable component of Accounts Receivable and the offsetting Due to Treasury General Fund liability related to Long-Term Water Storage agreements. For further discussion, refer to Note 1.Z., "Changes in Accounting Policy."

Other Information

Intragovernmental - Due to Treasury – General Fund is comprised of the custodial liability to offset interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury. USACE records a custodial liability for payables from water storage and hydraulic mining contracts.

Judgment Fund Liabilities - USACE Civil Works Directorate has recognized 43 and 41 unfunded liabilities in FY 2008 and FY 2007, respectively 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 to pay this type of claim. USACE sought supplemental appropriations for payment of CDA claims since 2005 which were not approved. The FY 2008 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 14. Commitments and Contingencies

Legal Contingencies

The 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 U.S. Treasury's Judgment Fund. The USACE discloses amounts recognized as contingent liabilities in Note 13 "Due to Treasury-General Fund and Other Liabilities". Amounts that are determined to be payable by the Judgment Fund are reclassified as an imputed financing source and disclosed in the Note 16, "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 Contract Disputes Act and Notification and Federal Employee Antidiscrimination and Retaliation Act settlements disclosed in Note 13 "Due to Treasury-General Fund and Other Liabilities" amounts that are paid by the Judgment Fund are recorded as imputed costs and financing sources.

Katrina-Related Claims and Litigation

Numerous administrative claims have been filed with USACE as a result of hurricane Katrina. Approximately 492 thousand, as of September 30, 2008 and 489 thousand, as of September 30, 2007 Federal Tort Claims Act administrative claims. The total asserted damages are expected to exceed $500 billion, for alleged personal injury, wrongful death, and property damages as a result of massive flooding caused by Hurricane Katrina. The U.S. Department of Justice (DOJ) currently has the responsibility to process these Katrina-related administrative claims due to the volume and the dollar amounts alleged. DOJ, through its contractors, has created a software system that is capable of imaging and labeling each claim, generating and mailing acknowledgment letters, and linking duplicate and related claims. In FY2009, responsibility for maintaining these administrative claims may be transitioned to USARCS.

Authority to deny any of the administrative claims rests solely with DOJ and not with USARCS. Thus far, only six of the Katrina-related administrative claims have been denied by DOJ. None have been settled. The six denials have been issued to the named plaintiffs in the "Robinson" case, which is not a class action and has been designated the lead case in the consolidated Katrina litigation. 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, unless instructed by DOJ to do so. As a result, such unsettled claims have the potential of becoming litigations in Federal court at the claimants' discretion.

Katrina-related administrative claims described above and other possible matters not currently known may result in additional litigation in Federal court. A Tucker Act case may be filed in Federal court up to six years after the right of first action accrues with the plaintiff but claim litigation must be filed within six months of an administrative denial. However, that period does not begin to run if the claim is not denied.

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. The 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. The amount of losses pertaining to potential hurricane Katrina-related damages not currently asserted against USACE, if any, is not determinable.

Most of the Katrina-related litigation that has been filed is consolidated before a single Federal judge in the Federal District Court in New Orleans. The Court, for case management purposes, has classified the individual cases into seven categories and ordered the filing of superseding, master complaints in most categories: Levee, Mississippi River Gulf Outlet (MRGO), Insurance, Responder, Dredging Limitations, St. Rita Nursing Home and Barge. In addition, the "Robinson" case, discussed above, is consolidated with these other cases. The MRGO and Barge categories along with "Robinson," all three involving similar geographic areas, are most relevant to USACE at this point as the United States has been dismissed without prejudice from the St. Rita Nursing Home cases and has been dismissed from the Levee cases by a non-final judgment rendered on January 30, 2008. In addition, there is one remaining Tucker Act case currently being litigated in the Court of Federal Claims.

The "Robinson" case is set for trial on April 20, 2009. The Court has denied the United States Motion to Dismiss on the basis of flood control immunity, and the United States plans to file in FY 2009, a Motion to Dismiss on the basis of the discretionary function exception to the Federal Tort Claims Act. A favorable decision would be instructive in both the MRGO and Barge categories of this consolidated litigation.

The MRGO and Barge categories are subject to a common scheduling order with class certification hearings scheduled for December 9, 2008, and trial commencing on July 13, 2009. Discovery is ongoing in these categories; however, no motion to dismiss has been filed. All such dispositive motions are being filed and argued in the "Robinson" case.

Other Litigation

Outside the Katrina-related litigation, USACE has 33 and 24 cases, as of September 30, 2008 and 2007, respectively, above the threshold of $7.1 million and $7.2 million respectively. The USACE OGC has determined that 3 and 3 cases are probable, 9 and 2 cases are reasonably possible, 10 and 8 cases are not determinable, and 11 and 11 cases are remote as of September 30, 2008 and 2007, respectively. Of the 3 and 3 probable cases, 2 and 3 are recorded as liabilities for $35 and $80 million as of September 30, 2008 and 2007, respectively; the potential liability for the remaining 1 and 0 probable cases is not determinable. Additionally, of the 9 and 2 cases reasonable possible 3 were estimated potential loss of $30 million as of September 30, 2008. The amount of potential loss was not determinable on the remaining 6 and 2 cases as of September 30, 2008 and 2007 respectively.

Additionally, USACE has a total of $190.5 million as of September 30, 2007 and $260 million as of September 30, 2008 in pending contract claims, civil litigation and non-Katrina tort cases which were individually under the thresholds of $7.1 million and $7.2 million respectively. 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 $19.0 million was recorded as of September 30, 2008 and $26.0 million as of September 30, 2007.

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 15. General Disclosures Related to the Statement of Net Cost

As of September 30	2008	2007
(Amounts in thousands)		
Intragovernmental Costs	$ 1,434,065	$ 1,130,000
Public Costs	8,087,251	7,485,546
Total Costs	$ 9,521,316	$ 8,615,546
Intragovernmental Earned Revenue	$ (2,180,957)	$ (2,175,993)
Public Earned Revenue	(20,194)	(1,269,694)
Total Earned Revenue	$ (2,201,151)	$ (3,445,687)
Net Cost of Operations	$ 7,320,165	$ 5,169,859

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 or acquiring stewardship land.

Note 16. Disclosures Related to the Statement of Changes in Net Position

Other Information

Appropriations received on the Statement of Budgetary Resources (SBR) should not and do 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 during FY 2008 and FY 2007 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 17, "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 17. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2008	2007
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 7,735,527	$ 3,907,831

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 2008, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the Statement of Budgetary Resources (SBR) includes: $9.3 billion for direct obligations; $11.5 billion for reimbursable obligations; and $141.0 million for reimbursable obligations exempt from apportionment. The USACE did not report any direct 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 2007, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the Statement of Budgetary Resources (SBR) includes: $7.3 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

Intraentity transactions have not been eliminated because the SBR is presented as a combined statement.

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) for FY 2008 and FY 2007. 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 for budget formulation. The USACE does include this appropriation in the SBR.

The President's Budget with actual figures for FY 2008 has not yet been published. The FY 2010 President's Budget will include actual figures for FY 2008 reporting. The FY 2010 President's Budget can be found at: *http://www.whitehouse.gov/omb*, early in FY 2009. The following chart is a reconciliation of the FY 2009 President's Budget actual figures for FY 2007 to FY 2007 Statement of Budgetary Resources as required by OMB Circular A-136.

Department of Defense
U.S. Army Corps of Engineers - Civil Works
Reconciliation of 2007 Year End Statement of Budgetary Resources to 2009 President's Budget

(Amounts in millions)

	Budgetary Resources	Obligations Incurred	Offsetting Receipts	Net Outlays	
	Line 23.90	Line 23.95	Line 02.99	Line 90.00	Explanation for reconciling differences
SBR	25,620	15,718	522	3,917	
Reconciling Difference	(52)	(38)		(1)	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				522	The SBR reduces net outlays by the amount of distributed offsetting receipts. The President's Budget Line Item 90.00 does not.
Reconciling Difference			(61)		General funds clearing accounts are included as distributed offsetting receipts in accordance with DFAS yearend guidance. It is not included in the President's Budget amount.
Reconciling Difference	(10)				Appropriation 96X3123 includes budget authority from the Department of Energy. It is not included in the President's Budget.
Reconciling Difference			(4)		The President's Budget includes earnings from investments from the general fund, South Dakota Terrestrial Wildlife Habitat Restoration trust fund. The SBR did not include this.
Reconciling Difference			1,537		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			14		Per Treasury's Financial Manual, Federal Account Symbols and Titles, receipt account 96R 5125 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.
Reconciling Difference	(654)	(655)			2006 Audit Adjustments
Reconciling Difference	86	340			2007 Audit Adjustments
Total	24,990	15,365	2,008	4,438	
President's Budget	24,992	15,368	2,011	4,440	
Difference	2	3	3	2	Due to rounding.

Note 18. Reconciliation of Net Cost of Operations (Proprietary) to Budget (formerly the Statement of Financing)

As of September 30	2008	2007
(Amounts in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 20,975,901	$ 15,718,293
Less: Spending authority from offsetting collections and recoveries	(13,032,520)	(8,603,750)
Obligations net of offsetting collections and recoveries	$ 7,943,381	$ 7,114,543
Less: Offsetting receipts	(638,940)	(521,925)
Net obligations	$ 7,304,441	$ 6,592,618
Other Resources:		
Donations and forfeitures of property	320	11,105
Transfers in/out without reimbursement	(74,931)	23,539
Imputed financing from costs absorbed by others	244,698	262,330
Net other resources used to finance activities	$ 170,087	$ 296,974
Total resources used to finance activities	$ 7,474,528	$ 6,889,592
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	$ (3,325,059)	$ (510,658)
Unfilled Customer Orders	1,911,344	(512,057)
Resources that fund expenses recognized in prior periods	(57,251)	(20,467)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	122,110	128,625
Resources that finance the acquisition of assets	(9,638)	(13,473)
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	74,612	(34,644)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (1,293,882)	$ (972,674)
Total Resources Used to Finance the Net Cost of Operations	$ 6,180,646	$ 5,916,918

As of September 30	2008	2007
(Amounts in thousands)		
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	$ 331,475	$ 14,069
Increase in exchange revenue receivable from the public	763,926	(6,059)
Other	2,946	38,498
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 1,098,347	$ 46,508
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 620,612	$ 506,102
Revaluation of assets or liabilities	220,637	(211,465)
Other		
Cost of Goods Sold	9,427	2,025
Operating Material and Supplies Used	142	254
Other	(809,646)	(1,090,483)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 41,172	$ (793,567)
Total components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 1,139,519	$ (747,059)
Net Cost of Operations	$ 7,320,165	$ 5,169,859

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 –The FY 2008 and FY 2007 amounts include the net amount of assets transferred between USACE and other government agencies. The FY 2007 amount also includes asset donations.

Composition of Components Requiring or Generating Resources in Future Periods: Other - The FY 2008 amounts include the current year increase to unfunded Federal Employees' Compensation (FECA) liability and the FECA actuarial liability.

The FY 2007 amount includes current year Judgment Fund Contract Disputes Act claims and current year unfunded expense for the FECA actuarial liability.

Composition of Components not Requiring or Generating Resources: Other – The FY 2008 and FY 2007 amounts include 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. Current year costs associated with nonfederal cost share projects in the contributed fund and costs related to the acquisition of operating materials and supplies in the revolving fund are also recorded as other expenses not requiring budgetary resources. In FY 2008 costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

Note 19. Earmarked Funds

	FY 2008				
BALANCE SHEET As of September 30 *(Amounts in thousands)*	Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 11,127	$ 779,578	$ 113,702	$	$ 904,407
Investments			4,789,604		4,789,604
Accounts and Interest Receivable	1,580	148	540,733		542,461
Plant, Property, and Equipment and					
Other Assets	1,073	34,157	922,943		958,173
Total Assets	$ 13,780	$ 813,883	$ 6,366,982	$	$ 7,194,645
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities					
Other Liabilities	1,750	768,777	116,717	(133)	887,111
Total Liabilities	$ 1,750	$ 768,777	$ 116,717	$ (133)	$ 887,111
Cumulative Results of Operations	12,030	45,106	6,250,265	1,276,574	7,583,975
Total Liabilities and Net Position	$ 13,780	$ 813,883	$ 6,366,982	$ 1,276,441	$ 8,471,086
STATEMENT OF NET COST					
Program Costs	$ 22,090	$ 285,677	$ 92,294	$ (43,181)	$ 356,878
Less Earned Revenue		238,345	0	88	238,433
Net Program Costs	$ 22,090	$ 524,022	$ 92,294	$ (43,093)	$ 595,311
Net Cost of Operations	$ 22,090	$ 524,022	$ 92,294	$ (43,093)	$ 595,311
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 10,389	$ 572,875	$ 5,727,337	$ 0	$ 6,310,601
Net Cost of Operations	22,090	524,022	92,294	(43,095)	595,311
Budgetary Financing Sources	23,731	147	1,035,407	1,233,479	2,292,764
Other Financing Sources		(3,894)	(420,185)	0	(424,079)
Change in Net Position	$ 1,641	$ (527,769)	$ 522,928	$ 1,276,574	$ 1,273,374
Net Position End of Period	$ 12,030	$ 45,106	$ 6,250,265	$ 1,276,574	$ 7,583,975

BALANCE SHEET As of September 30 *(Amounts in thousands)*	FY 2007 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 and Other Assets	1,041	28,769	1,214,609	0	1,244,419
Total Assets	$ 12,071	$ 591,646	$ 5,818,765	$ 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	(393,361)	0	57	393,304
Net Program Costs	$ 13,543	$ (73,177)	$ 992,618	$ (32,054)	$ 900,930
Net Cost of Operations	$ 13,543	$ (73,177)	$ 992,618	$ (32,054)	$ 900,930
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	(73,177)	992,618	(32,054)	900,930
Budgetary Financing Sources	16,756	1,470	1,588,549	(213,103)	1,393,672
Other Financing Sources	0	(4,974)	261,119	0	256,145
Change in Net Position	$ 3,213	$ 69,673	$ 857,050	$ (181,049)	$ 748,887
Net Position End of Period	$ 10,389	$ 572,875	$ 5,727,337	$ (181,049)	$ 6,129,552

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, 2008 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 in 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 20. Other Disclosures

The USACE has no assets under capital lease.

Operating Lease Liability - Lessee:

As of September 30, 2008, USACE has various non-cancellable operating leases mainly for office space and storage facilities maintained by many of the USACE Districts. Many of these leases contain clauses to reflect inflation and renewal options. The following schedule shows future General Services Administration lease payments due ($ in thousands):

Fiscal Year	Building Space
2009	$67
2010	$69
2011	$71
2012	$73
2013	$76
After 5 Years	$414
Total Future Lease Payments	$770

Operating Lease Liability - Lessor:

The USACE also has a small volume of operating leases for mostly easements. The following schedule provides future projected receipts ($ in thousands):

Fiscal Year	Land Rights
2009	$13,963
2010	$12,834
2011	$11,236
2012	$10,201
2013	$ 8,669
After 5 Years	$ 7,393
Total Future Lease Payments	$64,296

FY 2008 Required Supplementary Stewardship Information (RSSI)

Nonfederal Physical Property
Yearly Investments in Physical Property Owned by State and Local Governments
For the Current and Four Preceding Fiscal Years ended September 30
(Amounts in millions)

Categories	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Transferred Assets:					
1. National Defense Mission Related	$1,135	$1,028	$1,229	$1,324	$4,429
Funded Assets:					
2. National Defense Mission Related	$0	$0	$0	$0	$0
Total	**$1,135**	**$1,028**	**$1,229**	**$1,324**	**$4,429**

The U.S. Army Corps of Engineers (USACE) incurs investments in Nonfederal Physical Property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements, the purchases of major equipment, and the purchases or improvement of other nonfederal assets. In addition, USACE has the authority to enter into cost sharing agreements with nonfederal sponsors which are governed under numerous Water Resources Development Acts started with the Act of 1992. Nonfederal Physical Property Investments include federally-owned physical property transferred to state and local governments.

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.

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

Federal Mission Property, Plant and Equipment
Yearly Investment in Federal Mission Property, Plant and Equipment
For Fiscal Year Ended September 30, 2008
(Amounts in millions)

(a)	(b)	(c)	(d)	(e)	(f)
Categories	FY2004	FY2005	FY2006	FY2007	FY2008
1. Bank Stabilization Projects	$74	$59	$67	$73	$57
Total	**$74**	**$59**	**$67**	**$73**	**$57**

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 provide an efficient navigation alignment, increase 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).

After major floods in the years 1882, 1912, 1913 and 1927 the Flood Control Act of 1928 was signed which 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.

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.

FY 2008 Required Supplementary Information (RSI)

Heritage Assets
For Fiscal Year Ended September 30, 2008

(a)	(b)	(c)	(d)	(e)	(f)
Heritage Asset Categories	Measurement Quantity	As of 10/01/07	Additions	Deletions	As of 9/30/08
Buildings and Structures	Each	353	0	0	353
Archeological Sites	Each	586	0	0	586
Museum Collection Items (Objects, Not Including Fine Art)	Each	0	0	0	0
Museum Collection Items (Fine Art)	Each	0	0	0	0

Narrative Statement

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

2. **Relevance to the USACE Mission.** On 14 February 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-nogo' 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, "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."

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. No additions or deletions were noted from September 30, 2007 reporting of Heritage Asset Categories. Heritage assets classified as Land are special land plots containing archaeological sites as listed on the National Register of Historic Places or formally 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 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 to approximately 10,000 years before present, 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. 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 Sacramento District to early farming structures in 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 determined eligible for listing. There are a total of 353 Heritage Assets in this category and reflects no change from the prior fiscal year end report.

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts
As of 30 September 2008
(Amounts in Thousands)

(a)	(b)
Property Type/Major Class	
1. Real Property	
A. Buildings	
B. Structures	$1,298,871
2. Total	**$1,298,871**

Narrative Statement

Deferred maintenance at Civil Works water resources projects operated and maintained by the U.S. Army Corps of Engineers was determined through the budget development and appropriations process whereby operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. O&M 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

November 17, 2008

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

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2008 and FY 2007 Basic Financial Statements (Report No. D-2009-024)

We are providing the subject report to be published in the FY 2008 Agency Financial Report in conjunction with the U.S. Army Corps of Engineers, Civil Works, FY 2008 and FY 2007 Basic Financial Statements provided to us in draft on November 13, 2008. The report includes our unqualified opinion on the financial statements, as well as our required report on internal control and compliance with laws and regulations. Because our unqualified opinion is being issued to accompany the U.S. Army Corps of Engineers, Civil Works, FY 2008 and FY 2007 Basic Financial Statements, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Lorin T. Pfeil at (703) 601-5945 (DSN 329-1545) or Ms. Pauletta Battle (703) 601-5900 (DSN 329-5900).

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

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

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2008 and FY 2007 Basic Financial Statements (Report No. D-2009-024)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying U.S. Army Corps of Engineers, Civil Works, (USACE) Consolidated Balance Sheets as of September 30, 2008 and 2007, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Statement of Custodial Activity and related notes for the fiscal years then ended. The financial statements are the responsibility of USACE management. USACE is also responsible for implementing effective internal control and for complying with laws and regulations.

As part of our audit, we examined internal control over financial reporting and compliance with applicable laws and regulations. In addition to our opinion 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 work.

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 (OMB) No. 07-04, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance 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 audit provides a reasonable basis for our opinion.

We, the DoD 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 have used 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; 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 30.2 percent in FY 2008) of the Asset portion of the USACE FY 2008 and FY 2007 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 actions to correct these previously identified deficiencies. However, our additional audit work on the FY 2006 beginning balances of USACE Buildings and Other Structures assets, 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.

In August 2007, USACE gave us a Corrective Action Plan to address the Memorandum of Agreement compliance issues. Therefore, we performed additional audit work on the USACE FY 2006 beginning balance amount for the Buildings and Other Structures assets. We reviewed over 90 percent of the total USACE book value for Buildings and Other Structures assets. Based on the results from this review, we believe that USACE has sufficiently supported or provided correct documentation for the Buildings and Other Structures assets to remove uncertainty that the assets are materially misstated.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USACE as of September 30, 2008 and 2007, 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 OMB Circular A-136, "Financial Reporting Requirements."

Matters of Emphasis

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 OMB Circular No. A-136. The scope of our work included procedures in OMB Bulletin No. 07-04. However, we were not required to audit this information or express an opinion on it under OMB Bulletin No. 07-04. Accordingly, we do not express an opinion on this information.

Summary of Internal Control

In planning our work, 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 OMB 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, a previously identified significant deficiency, which is a material weakness, continued to exist in General Property, Plant, and Equipment.

A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.*

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. We identified the following significant deficiencies:

- Entity-Wide Internal Controls
- Accrual Accounting
- Corps of Engineers Financial Management System User Account Management Control
- Financial Report Preparation
- Information Technology General Controls over Corps of Engineers Management Information System, Acquired Personal Property Management System, and Real Estate Management Information System

Internal control work that we conducted as part of our prior audits would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, some of which we consider to be material internal control weaknesses.

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* The term "remote" is defined as when the chance of a future event or events occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

Summary of Compliance with Laws and Regulations

As part of obtaining reasonable assurance whether the USACE FY 2008 and FY 2007 Financial Statements were free of material misstatement, we performed tests for compliance with certain provisions of laws and regulations, including those specified in OMB 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:

- Federal Financial Management Improvement Act of 1996
- Debt Collection Improvement Act of 1996
- Antideficiency Act

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

Management's Responsibilities

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.

We provided a draft of this report to the Chief of Engineers, U.S. Army Corps of Engineers, who provided technical comments, which we have incorporated into the report as appropriate.

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations

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 that accounting data are accumulated, recorded, and reported properly; that the requirements of applicable laws and regulations are met; and that assets are safeguarded against misappropriation and abuse. Because USACE management asserted that the FY 2008 and FY 2007 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 (OMB) guidance, but the purpose of our audit was not to express an opinion on internal control or compliance with laws and regulations. Accordingly, we do not express 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 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 OMB 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 audit provides a reasonable basis for our opinion.

Our testing of USACE internal controls included those procedures in OMB Bulletin No. 07-04 that were designed to determine whether an agency's 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 that could have a direct and material effect on the consolidated and combined financial statements 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 OMB Bulletin No. 07-04.

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 2008 audit. Our overall FY 2008 audit method emphasized substantive tests of details on account balances because the USACE internal controls were determined to be unreliable. As a result of our audit, USACE management posted necessary adjusting entries to the USACE FY 2008 Financials Statements to conform with generally accepted accounting principles and to address the internal control deficiencies.

Material Weaknesses

During the audit, we identified the following material weakness that USACE management reported in its FY 2008 Annual Statement of Assurance on Management Controls. USACE identified this material weakness in accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, Appendix A, "Management's Responsibility for Internal Control."

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 2008 and FY 2007 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. We identified the following material weaknesses in USACE internal controls for General Property, Plant, and Equipment that significantly affected the financial statements.

- **Lack of Adequate Internal Controls for Construction Assets.** USACE continues to exhibit a lack of sufficient controls to ensure that USACE personnel properly classify completed construction-related transactions, in a timely manner, in the Corps of Engineers Financial Management System. USACE has designed controls to classify asset work items in the Program and Project Management Information System and to monitor Construction-in-Progress quarterly reviews; however, our audit findings indicate that these controls are not operating effectively.

  — **Classification of Asset Work Items in the Program and Project Management Information System.** When Congress approves construction projects, USACE creates a construction project work-item hierarchy in its Program and Project Management Information System, which assigns individual work items to specific construction activities. However, in many situations, USACE personnel map work items to multiple assets or a set of assets, or construction activities that support a set of assets. In these situations, USACE personnel commingle asset costs within the work items and, subsequently, manually allocate the costs to the individual construction assets. The process of allocating or mapping commingled work-item costs to individual construction assets sometimes occurs after all assets in the set are completed. This causes costs of assets that are completed and in use to remain in Construction-in-Progress in the Corps of Engineers Financial Management System until USACE personnel complete all other assets within the set and allocate the commingled work-item costs. As a result, USACE is unable to timely place the construction asset in service in the Corps of Engineers Financial Management System. On April 8, 2008, USACE management issued a Corrective Action Plan (CAP) to correct this issue; however, as of September 30, 2008, USACE has not implemented the plan across all districts and we consider the plan to be operating ineffectively.

— **Construction-in-Progress Quarterly Reviews.** The quarterly Construction-in-Progress reviews are intended to verify that costs in the Construction-in-Progress account are part of active, on-going projects, and verify that these costs are not identified to any asset previously placed in service, or do not represent a completed asset that should have been placed in service. The review should also identify expenses that USACE incorrectly classified as Construction-in-Progress. Through procedures we performed in the planning phases of the FY 2008 audit, we noted that USACE did not formally document and review the performance of the quarterly Construction-in-Progress reviews. On April 8, 2008, USACE management issued a CAP to correct this issue; however, USACE did not implement the CAP across all districts as of September 30, 2008, and we consider the CAP to be operating ineffectively. We also noted that USACE had in-use construction assets that it had not placed in service in a timely manner. Without adequate internal controls to ensure assets are placed in service in a timely manner, transactions that USACE records more than 30 days after an activity transpires can lead to a classification error and a misstatement on the financial statements. This results in an understatement of accumulated depreciation and causes the net book value of the Property, Plant, and Equipment line item to be overstated. This may also result in errors when calculating accumulated depreciation because manual adjustments must be made to accumulated depreciation for assets that are not placed in service in a timely manner. In addition, the manual adjustment to accumulated depreciation may cross fiscal years, causing depreciation expenses to be recognized in the wrong accounting period.

- **Lack of Proper Segregation of Duties Related to Property, Plant, and Equipment Processes and Controls.** USACE did not properly segregate duties related to personal property inventories. Specifically, an insufficient segregation of duties enabled property custodian Hand Receipt Holders to have custody of the assets, conduct the annual physical inventory, and reconcile discrepancies identified by the Property Book Officer. Without proper segregation of duties, employees responsible for custody of physical assets could misappropriate assets without detection. Employees with incompatible duties could also manipulate the financial records to conceal misappropriating the assets. Either of these situations could cause the Property, Plant, and Equipment line item to be misstated on the financial statements.

- **Lack of Adequate Supporting Documentation.** USACE was unable to provide supporting documentation for all the transactions in our Construction-in-Progress, Buildings and Structures, and Equipment samples. A lack of documentation to support work-item cost assignments increases the risk that employees incorrectly classify work-items. Because costs are accumulated by work item, incorrect cost types may lead to improperly valued Construction-in-Progress or expense balances.

- **Lack of Supervisory Review over Property, Plant, and Equipment Transactions Data Entry.** The USACE Staff Accountant is typically responsible for recording transactions in the Corps of Engineers Financial Management System related to the acquisition, disposal, and transfer of Property, Plant, and Equipment. Our audit indicated that USACE does not independently validate the accuracy or completeness of information entered into the Corps of Engineers Financial Management System. USACE did not consistently implement a new control to require the independent review of asset information entered into the Corps of Engineers Financial Management system across all districts. As a result, we noted 23 errors that USACE may have prevented if USACE management had completed consistent review procedures for these asset transactions. Because of the lack of consistent, independent reviews, there is an increased risk that the Staff Accountant, Property Book Officer, and Real Property Accountability Office could record inaccurate information in the financial or accountability systems without timely detection and correction. This may cause the Property, Plant, and Equipment line item or individual accounts that make up that line item to be misstated or valued improperly.

- **Lack of Managerial Review over Property, Plant, and Equipment Reconciliations.** USACE does not formally require preparer sign-off on USACE system reconciliations documenting the research and resolution of all Property, Plant, and Equipment activity discrepancies. USACE also does not formally require manager sign-off on reconciliations, indicating that the manager had reviewed the reconciliation to ensure all necessary follow-up procedures were performed, the disposition of discrepancies was appropriate, and the information in and underlying the reconciliations adequately supported the adjustments made in the accounting records. If USACE does not perform key reconciliations consistently and appropriately, discrepancies between the systems used to account for and record assets may exist, which could result in an overstatement of the corresponding assets on the financial statements.

Significant Deficiencies

During the FY 2008 audit, we identified the following five significant deficiencies. USACE management did not report two of these deficiencies in its FY 2008 Annual Statements of

Assurance on Management Controls. USACE did not identify this significant deficiency in accordance with the Federal Managers' Financial Integrity Act and OMB Circular A-123, Appendix A.

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 2008 audit, we found inconsistencies in USACE entity-wide controls that caused significant deficiencies. The following are examples of deficiencies in the USACE Risk Assessment and Monitoring of entity-wide controls.

- The existing USACE Risk Assessment process lacks adequate focus on financial management risks. Management has updated policies and procedures and developed CAPs, based on findings identified in conjunction with the financial statement audit. However, we noted that management has not clearly identified its Risk Assessment objectives, such as those identified in strategic and annual performance plans, and has not linked them to the applicable financial reporting objectives.

- As part of the USACE Risk Assessment process, the USACE Executive Senior Assessment Team meets on a quarterly basis to evaluate status of findings noted through previous internal and external reviews. We noted that USACE does not formally document the Risk Assessment process, including detailed identified risks and management's analysis for possible effects on operations and financial reporting assertions as a whole. Furthermore, the Executive Senior Assessment Team does not evaluate if USACE deploys sufficient technical resources in the Risk Assessment process, including in the evaluation, design, and coordination of entity-wide implementation of risk-prioritized accounting policies, processes, and control procedures.

- USACE management has developed a process to identify and track the status of the CAPs. However, USACE has not developed a completion timeline in which management would assess the success of implementing the CAPs.

- USACE management has developed a centralized monitoring function, which is located at the USACE Finance Center. Although USACE is using this monitoring function to analyze USACE financial transactions and operational data, USACE has not set deadlines by which its personnel, using this centralized monitoring function, will identify risks as well as remediation by the Field Operating Activity personnel.

The following examples demonstrate how inconsistencies in USACE entity-wide controls resulted in accounting policies, processes, and control procedures that were not sufficiently designed and effectively implemented to reduce USACE financial reporting risks to an appropriate level. Inadequate controls increase the likelihood that:

- USACE management did not timely prevent, detect, or correct errors that could result in misstatements in the financial statements.

- USACE management may not be able to prevent or detect fraudulent activities in a timely manner.

- Noncompliance with applicable laws and regulations may occur without USACE management's timely response 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.

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 has policies and controls in place that require review of the underlying cost share control record before system input and on-going monitoring throughout the life of the cost share agreement. These controls were designed to ensure proper revenue recognition. However, USACE has not consistently implemented these controls entity-wide. Inconsistently implementing these controls increases the likelihood that:

- USACE records incorrect amounts of revenue in the accounting system;

- USACE records an inadequate or incomplete audit trail demonstrating the validity and accuracy of the information in the account system; and

- USACE includes a misstatement in the financial statements.

Corps of Engineers Financial Management System User Account Management Control. USACE does not have entity-wide guidance on what role a typical user serving a particular function in a business organization would have; therefore, the number and type of users assigned Corps of Engineers Financial Management System roles is at each district's discretion. Existing business rules restricting certain roles to USACE Finance Center personnel were generally operating effectively; however, other roles do not have business rules to prevent users outside of the USACE Finance Center from having those roles. USACE management is developing a program for central monitoring and oversight of Corps of Engineers Financial Management System role assignments; however, USACE does not expect the program to be fully operational until early FY 2009. Our testing results identified the following:

- The numbers of users with sensitive Corps of Engineers Financial Management System roles varies widely across the districts' databases and these numbers are not monitored independently, which could indicate the inconsistent assignment of roles by location.

- Some sensitive roles appear to be assigned to too many individuals, and the managers who assigned the roles performed the annual recertification of the users' access.

- USACE assigned roles that should have been restricted to USACE Finance Center personnel to certain users outside of the USACE Finance Center.

- Of nearly 340,000 active roles applied to Corps of Engineers Financial Management System users, 5,580 had an expiration date of greater than one year although their role assignments were supposed to expire annually.

Without proper controls over creating and managing Corps of Engineers Financial Management System accounts, including restricting and segregating Corps of Engineers Financial Management System roles, an increased risk exists that individuals could perform unauthorized or potentially fraudulent transactions by circumventing intended segregation of duties and internal control policies. An increased risk also exists that Corps of Engineers Financial Management System users could damage, intentionally or unintentionally, application data by using Corps of Engineers Financial Management System roles.

Financial Report Preparation. USACE has a complex financial reporting process that includes summarizing accounting transactions from 59 Corps of Engineers Financial Management Systems databases, using the Corps of Engineers Enterprise Management Information System. The accounting transaction data are further summarized in the Corps of Engineers Enterprise Management Information System and compiled into the Defense Departmental Reporting System, which generates the USACE financial statements. The Defense Departmental Reporting System prepares financial statements in accordance with DoD policies and procedures for internal DoD-wide reporting. However, because of the complexities of the process and system constraints, the financial statements produced do not comply with OMB and Financial Accounting Standards Advisory Board requirements.

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 OMB and Financial Management Service guidance for audit and external reporting purposes. This requires a significant amount of manual data input by USACE Finance Center staff within a compressed reporting timeframe. The manually intensive process creates a greater risk of error. Inconsistently executing review procedures and similar control activities over financial statement preparation increases the risk that an error will exist within the financial statements and remain undetected.

Information Technology General Controls over Corps of Engineers Management Information System, Acquired Personal Property Management System, and Real Estate Management Information System. OMB 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 OMB Circular A-130 defines "separation of duties" as the practice of dividing among different individuals the steps in critical job functions.

Because Corps of Engineers Management Information System, Acquired Personal Property Management System, and Real Estate Management Information System are not the data entry points for financial accounting data, USACE did not consider the impact of these applications on the internal controls over financial reporting. Therefore, USACE did not develop formal change control and user account management procedures, similar to those in place for Corps of Engineers Financial Management System, for these three systems.

The lack of effective application software change controls and user account management controls for the Corps of Engineers Management Information System, Acquired Personal Property Management System, and Real Estate Management Information System applications increases the risk of unauthorized access to application transactions or modification of data and programs through other means. This impairs the ability of USACE management to rely on system-generated reports supporting important business cycle-level controls, such as the performance of physical inventories or reconciliation to assets recorded in the Corps of Engineers Financial Management System.

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 2008 Financial Statements were free of material misstatement. We performed tests for compliance with certain provisions of laws and regulations, which could have a direct and material effect on determining financial statement amounts, as well as with other relevant laws and regulations specified in OMB 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 OMB Bulletin No. 07-04 required agencies to report.

- **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, as required by the Federal Financial Management Improvement Act of 1996. 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. In addition, management did not comply with portions of Federal accounting standards from the Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment." USACE management did not have robust policies and procedures to ensure that USACE reviewed and appropriately implemented applicable accounting guidance. Finally, USACE management did not comply with the United States Standard General Ledger guidance issued by the Treasury's Financial Management Service.

- **Debt Collection Improvement Act of 1996.** In our audit, we examined a sample of interest payments related to the Debt Collection Improvement Act of 1996. In FY 2008, USACE did not correctly calculate interest payments for 14 of 60 sample items. These miscalculations may have been caused by (1) lack of adequate debtor information to refer delinquent debts to the Department of the Treasury timely; (2) Corps of Engineers Financial Management System automatically calculating interest starting at 90 days outstanding and not accruing the interest for days 31 through 90; or (3) timing delays between when the new Treasury rate became effective and when the rate was updated in the Corps of Engineers Financial Management System.

- **Antideficiency Act.** USACE management self-reported an infraction related to the Antideficiency Act. USACE used funds from two Operations and Maintenance projects to purchase Plant Replacement and Improvement Program equipment, resulting in a violation of the Purpose Statute of the Antideficiency Act. We determined that the piece of equipment would have served multiple projects, and thus should have been funded using the USACE Revolving Fund.

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.

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.

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