2010

Fiscal Year 2010
United States Army
Annual Financial Report

America's Army: Our Families Give Us Strength

U.S. Army Corps of Engineers - Civil Works

America's Army: Our Families Give Us Strength

Army Family Covenant

We recognize…

…The commitment and increasing sacrifices that our Families are making every day.

…The strength of our Soldiers comes from the strength of their Families.

We are committed to…

…Providing Soldiers and Families a quality of life that is commensurate with their service.

…Providing our Families a strong, supportive environment where they can thrive.

…Building a partnership with Army Families that enhances their strength and resilience.

We are committed to improving family readiness by:

- Standardizing and funding existing Family programs and services
- Increasing accessibility and quality of health care
- Improving Soldier and Family housing
- Ensuring excellence in schools, youth services, and child care
- Expanding education and employment opportunities for Family members

ON THE COVER: [main] A daughter clings to her father during a welcome home ceremony. [inset right] A Soldier helps his son explore driver's seat options, including starting the vehicles, honking the horn, flipping switches and turning on blinkers and fans. [inset left] A family cries while watching the 86th Infantry Brigade Combat Team leave after their departure ceremony in Burlington, VT. DoD photo by Chad J. McNeeley

ON THE INSIDE: A Soldier playfully tosses his son, Hunter Johnson, up into the air following the brigade's deployment ceremony.

*Unless otherwise noted, all photos on the cover and inside pages are courtesy of the U.S. Army. (www.army.mil)

Bonneville Lake

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“Military success in this war is tied to the capabilities of our leaders and Soldiers, and we will not fail to prepare them for success.”

— General George Casey, Chief of Staff of the Army

The Army Corps of Engineers has a great history of serving the nation in peace and war, both at home and abroad. Since its early days supporting the troops in the Revolutionary War, through its response and assistance with this year's Midwest floods, the Corps has played a critical role in the safety, security, and economy of our country. Today the Corps is one of the world's largest public engineering, design, and construction management agencies. It has evolved over time in response to changing societal requirements and will continue to adapt to the future needs of the nation.

The Civil Works mission of the Army is to provide responsible development, protection and restoration of the Nation's water and related land resources. As illustrated in this report, Civil Works projects are constructed and operated for commercial navigation, flood risk management, environmental restoration, hydroelectric power, recreation, and municipal and industrial water supply storage. In addition to these direct federal investments, the Civil Works Program includes an important regulatory function whereby the Corps regulates construction in navigable waters and the deposition of dredged and fill material in waters of the United States, including wetlands. The Civil Works Program also includes disaster preparedness, response and recovery activities.

The total value of the Civil Works infrastructure is approximately $165 billion. The average age of Corps dams is more than 58 years. Faced with an austere fiscal environment, the job of maintaining and refurbishing the nation's vast and aging water infrastructure requires all of the ingenuity that the Corps has demonstrated throughout its history. Balancing the competing water resources needs throughout the country will take a national vision. Preserving and creating wetlands, affording recreational opportunities, and maintaining a world class navigation system that this country enjoys is integral to that vision.

The performance of the Civil Works program discussed in this report supports the economic, energy sustainability, and environmental goals of the Administration. We are dedicated to continuing a national water resources program that serves the best interest of our citizens and helps to ensure a safe and productive water resources infrastructure well into the future.

Jo-Ellen Darcy

Jo-Ellen Darcy
Assistant Secretary of the Army
(Civil Works)

"We're ultimately working toward an agile, globally responsive Army that's enhanced by modern networks, surveillance sensors, precision weapons and platforms that are lighter, less logistics-dependent and less manpower-intensive. It's a truly 21st century force."

– General George Casey, Chief of Staff of the Army

I am proud to report that the Fiscal Year 2010 United States Army Corps of Engineers (USACE) Civil Works Financial Statements received a third consecutive "clean" audit opinion.

This report summarizes our performance in delivering the Civil Works mission of USACE and fairly presents its financial position. This year the USACE continued its journey to greatness through commitment to continuous improvement in its internal controls and surrounding processes. Through corrective action plans and robust testing, the program's effectiveness has grown vastly.

Fiscal Year 2010 was another historic year regarding workload with approximately $15.8 billion obligated. USACE once again was a major player in the American Reinvestment and Recovery Act with a total of $4.6 billion in direct appropriations and another $275 million in reimbursable work. The decisions our managers make as they allocate funds to the Civil Works programs become increasingly reliant on our financial system to provide assurance that system controls are designed and implemented effectively.

I am proud of everyone within USACE who continues to strive toward greatness in the area of financial management. Our commitment to provide transparency and accountability in budget and financial management remains our top priority.

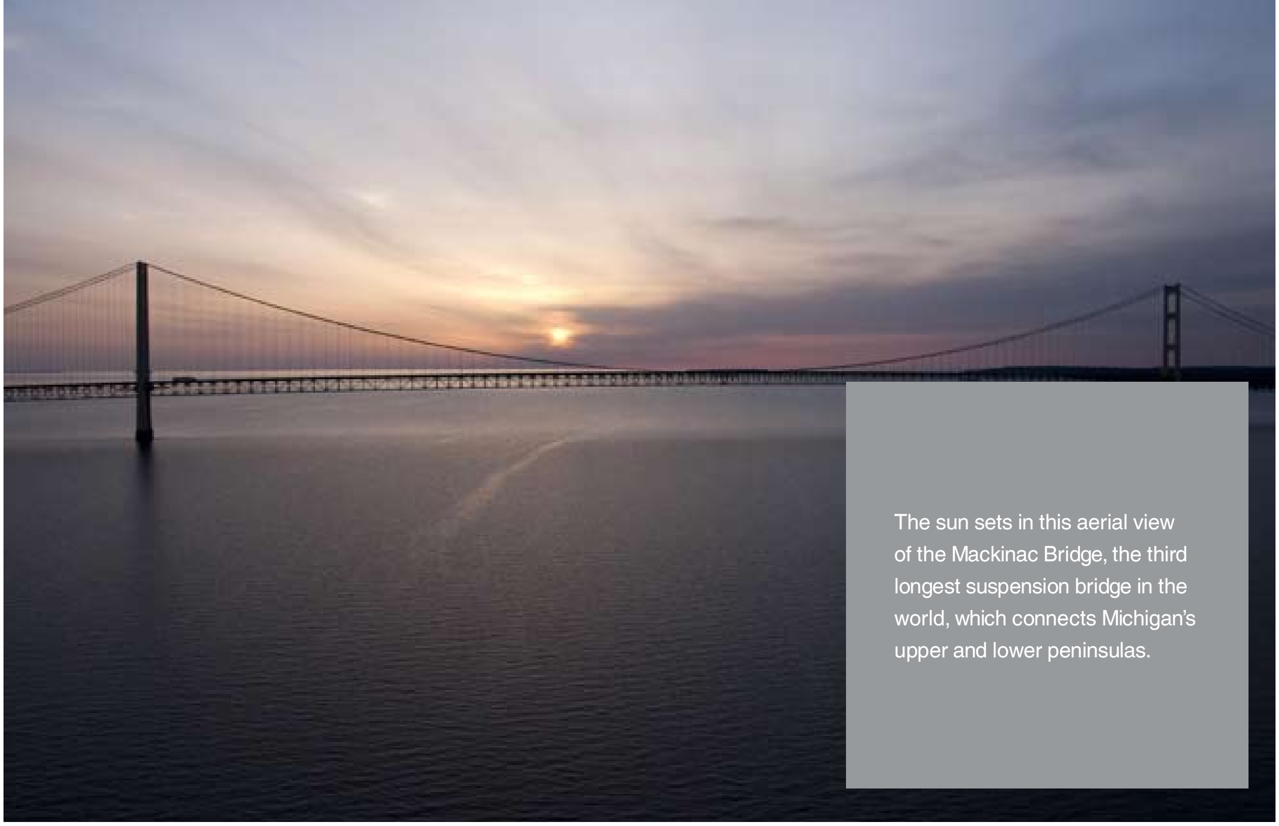
Wesley C. Miller
USACE Chief Financial Officer

With low water levels at Eastman Lake pelicans perch and wait patiently to feed on fish.

“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

U.S.ARMY



The sun sets in this aerial view of the Mackinac Bridge, the third longest suspension bridge in the world, which connects Michigan's upper and lower peninsulas.

Overview

The United States Army Corps of Engineers (USACE) is comprised of two major programs: the Civil Works Program and Military Program. These financial statements represent the Civil Works Program only, as the Military Program is reported within the Army General Fund Financial Statements.

Mission

The civil works mission of the USACE is to (1) contribute to the national welfare and serve the nation with quality, responsive development, and management of the nation's water resources; (2) protect, restore, and manage the environment; (3) respond to disasters and aid in recovery; and (4) provide engineering and technical services. This multi-faceted mission is accomplished in an environmentally sustainable, economically and technically sound manner through partnerships with other government agencies and nongovernment 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 environmental concerns 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 regulating discharges into United States (U.S.) waters, including the country's wetlands. The civil works program's environmental responsibilities have continued to increase through legislation and now include aquatic ecosystem restoration, remedial activities at former defense sites, and overall stewardship responsibilities.

Responding and Assisting in Disaster Relief

Throughout the Corps' history, the United States has relied on the civil works program for help both in times of natural and man-made disasters. The Corps responds to natural disasters under the Flood Control and Coastal Emergency Act (Public Law (P.L.) 84-99, as amended) and to man-made disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended).

The civil works program's primary role 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, which includes providing services to foreign governments.

The Civil Works Program

The Corps operates multiple business lines to accomplish its mission. Each business line specifically addresses a single mission component, but may also contribute to one or more other business line missions. Figure 1 lists the business lines that receive direct appropriations and the funds used for executive direction and management for fiscal year (FY) 2010.

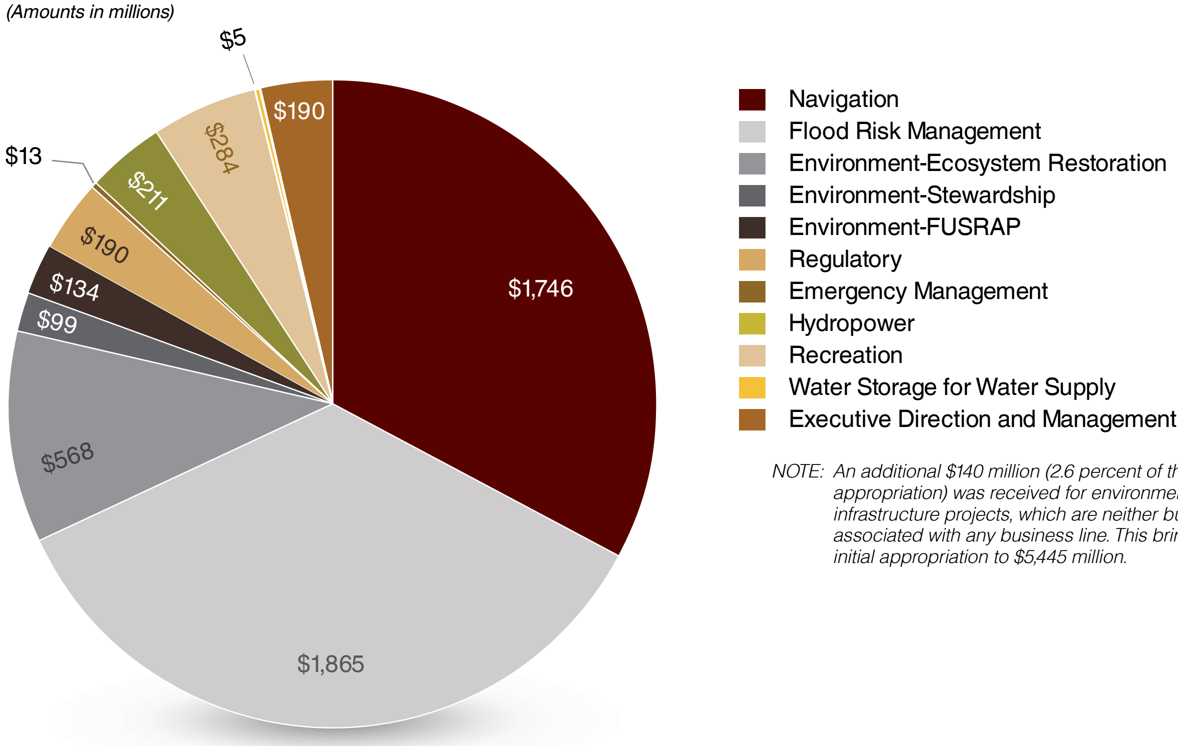
Through the American Recovery and Reinvestment Act of 2009 (ARRA), the Corps received $4.6 billion for its civil works program. All of the Corps' business lines, except emergency management, received ARRA funding for various programs, projects, and activities. Specific information on ARRA funding may be found at the Corps' Recovery Web site at *http://usace.army.mil/recovery*.

Navigation

Navigation is responsible for ensuring safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods, as well as for national security needs. The business line meets this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The navigation business line 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)

Figure 1. FY 2010 Civil Works Initial Appropriation by Business Line

(Amounts in millions)



NOTE: An additional $140 million (2.6 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 $5,445 million.

Two Corps employees lean over a snow-covered levee. They are measuring a boil in the levee.

encompasses a network of Corps-maintained navigable channels, waterways, and infrastructure 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 13,000 miles of coastal, Great Lakes, and inland harbors; channel projects; and 241 locks at 196 sites that are maintained by the Corps.

In FY 2010, navigation, estimated at $1.7 billion, accounted for 32 percent of civil works initial appropriations.

Flood Risk Management

The Flood Risk Management business line reduces the risk to human safety and property damage in the event of floods and coastal storms. The civil works program has constructed 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 storm damage reduction projects along 240 miles of the nation's 2,700 miles of shoreline. Upon completion, with the exception of reservoirs, most infrastructure built under the auspices of flood risk management is transferred to the sponsoring cities, towns, and special use 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 prevention to 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 for the federal, state, local, and individual partnerships needed to thoroughly manage the risks caused by coastal storms and heavy rains.

Risk management is the process of identifying, evaluating, selecting, implementing, and monitoring actions to mitigate levels of risk. Its goal is to ensure 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 relies on productive collaborations with partners and stakeholders; i.e., the Federal Emergency Management Agency, the Department of Housing and Urban Development, the National Oceanic and Atmospheric Administration, affected state agencies, sponsors and citizens. Effectively and efficiently, these collaborations heighten the nation's awareness of flood risks and consequences.

The Flood Risk Management business line has compiled an impressive record of performance, yielding a six-to-one return on investment; that is, the business line saves six dollars for each dollar spent. It has also helped reduce the risk to human safety by providing timely flood warnings that afford sufficient time for evacuation.

In FY 2010, the estimated $1.9 billion Flood Risk Management business line accounted for slightly more than 34 percent of civil works appropriations.

Environment

The Corps has three distinct business lines 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 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 habitats where the solution primarily involves modifying the hydrology and geomorphology. In FY 2010, Aquatic Ecosystem Restoration received approximately $568.0 million, which translates to just over 10 percent of the total initial appropriation.

Environmental Stewardship. Environmental Stewardship focuses on managing, conserving, and preserving natural resources on 11.5 million acres of land and water at 456 multipurpose Corps' projects. Corps' personnel monitor water quality at Corps' dams and operate fish hatcheries in cooperation with state wildlife agencies. This business line encompasses compliance measures to ensure Corps' projects (1) meet federal, state and local environmental requirements; (2) sustain environmental quality; and (3) conserve natural and cultural resources. In FY 2010, Environmental Stewardship received $99 million, an amount comprising 1.8 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 cleansing former military sites and civilian hazardous waste sites under the Environmental Protection Agency's Superfund Program. In FY 2010, the FUSRAP received approximately $134.0 million, or approximately 2.5 percent of the total initial appropriation.

Regulation of Aquatic Resources

In accordance with the Rivers and Harbors Act of 1890 (Sec. 10) and the Clean Water Act of 1972 (Sec. 404), as amended, the Corps' regulatory program regulates work in, over, and under navigable rivers and 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 complies with the National Environmental Policy Act and other applicable environmental and historic preservation laws. In addition to

A white egret enjoys a dance on a branch at Eastman Lake near Madera, California.

An innovative flood fighting technique, called an inflatable dam, being tested by the City of Fargo, N.D. The U.S. Army Corps of Engineers has been assisting the communities of the Red River of the North river valley in fighting the 2010 spring floods.

federal statutes, the Corps also considers the views of other federal, tribal, state and local governments, agencies, and interest groups, as well as the general public when rendering its final permit decisions. Regulatory responsibilities include evaluating minor activities such as driveways for small landowners, as well as large water supply and energy project proposals which affect approximately $220.0 billion of the nation's economy.

In FY 2010, the Regulatory appropriation, at approximately $190 million, accounted for 3.5 percent of total civil works appropriations.

Emergency Management

Throughout the 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, which directly supports the Department of Homeland Security in carrying out the National Response Framework. It does this by providing emergency support in public works and engineering and by conducting emergency response and recovery activities under authority of P.L. 84-99. In a typical year, the Corps responds to more than 30 presidential disaster declarations, and its highly-trained workforce is prepared to deal with both man-made and natural disasters.

The Corps not only contributes to domestic emergency management efforts, but also plays a major role on the international stage through its participation in civil-military emergency preparedness. In support of the Department of Defense, 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 2010, Emergency Management received approximately $20.0 million in supplemental appropriations for repairs to eligible damaged projects. No funding was received 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 70 billion kilowatt-hours each year—sufficient to serve nearly 7 million households or roughly

11 cities the size of Seattle, Washington. Hydropower is a renewable source of energy, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect.

In FY 2010, Hydropower accounted for approximately $211.0 million, just under 4 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 business line provides quality outdoor public recreation experiences in accordance with its three-part mission to (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 2010, 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 2010, Recreation accounted for approximately $284.0 million or just over 5 percent of the civil works budget.

Water Storage for Water Supply

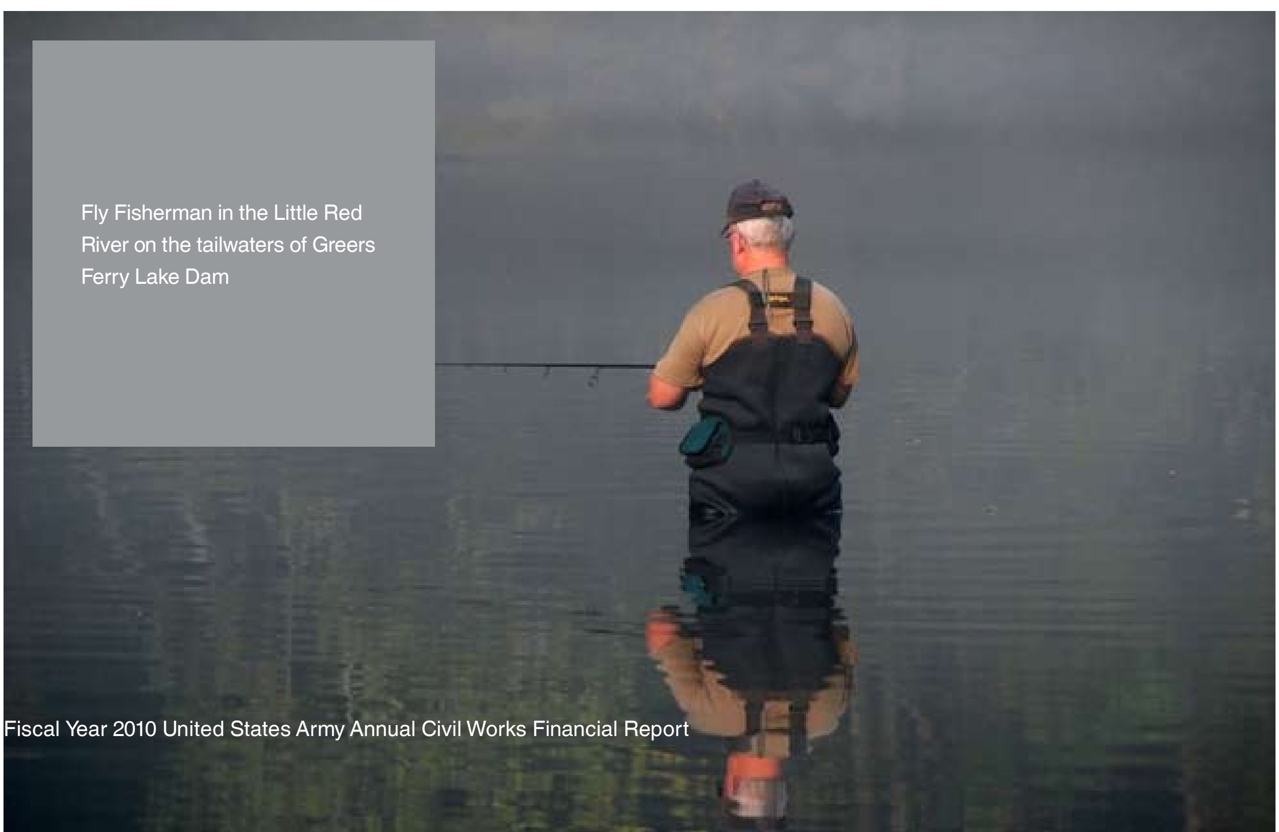
Conscientious management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The Corps has an important role in ensuring that homes, businesses, and industries nationwide have enough water to meet their needs. It retains authority for water supply in connection with construction; operation and modification of federal navigation; flood damage reduction; and multipurpose projects.

In FY 2010, this approximately $5.0 million business line accounted for less than one tenth of 1 percent of civil works appropriations.

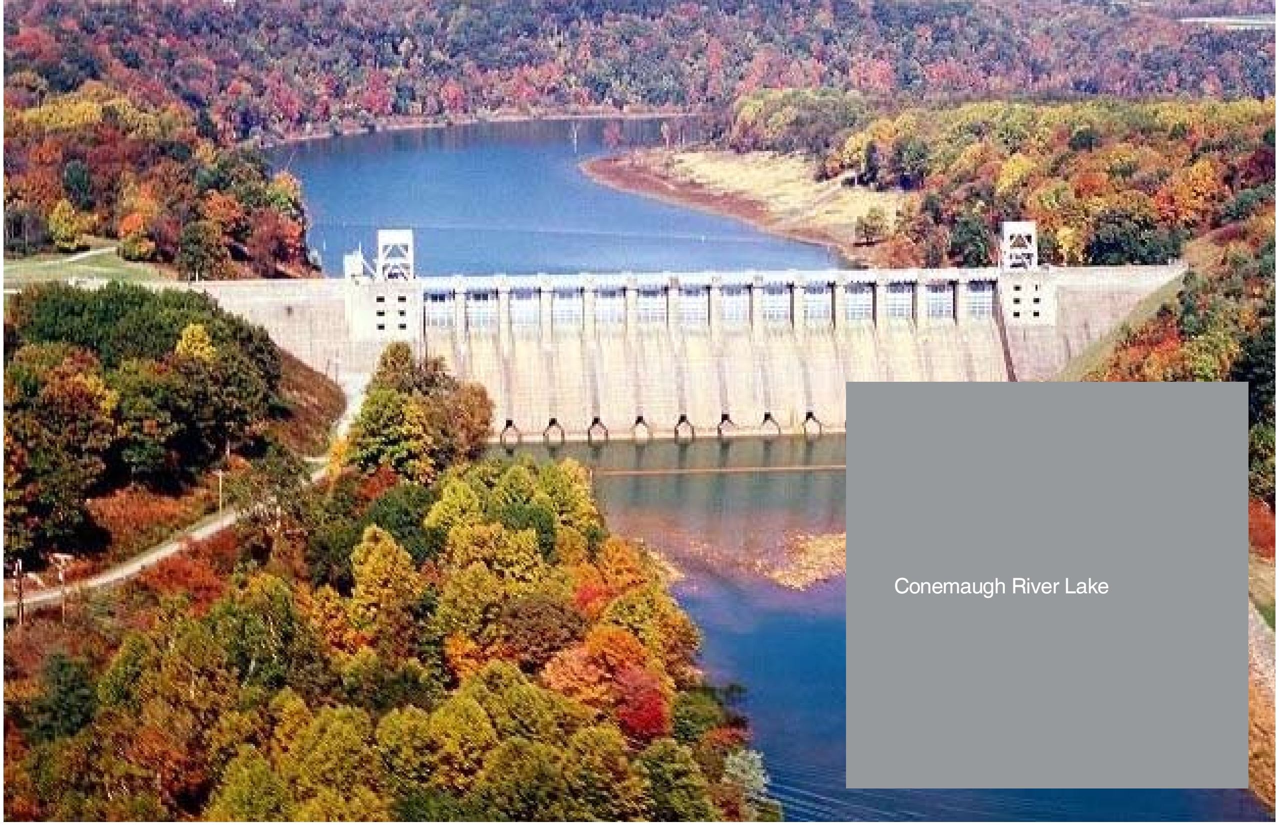
Organizational Structure

The Workforce

The Corps employs approximately 37,000 people, including 650 military officers and 25,000 civilians who perform civil works duties. It is funded through the energy and water development appropriation and executes its missions

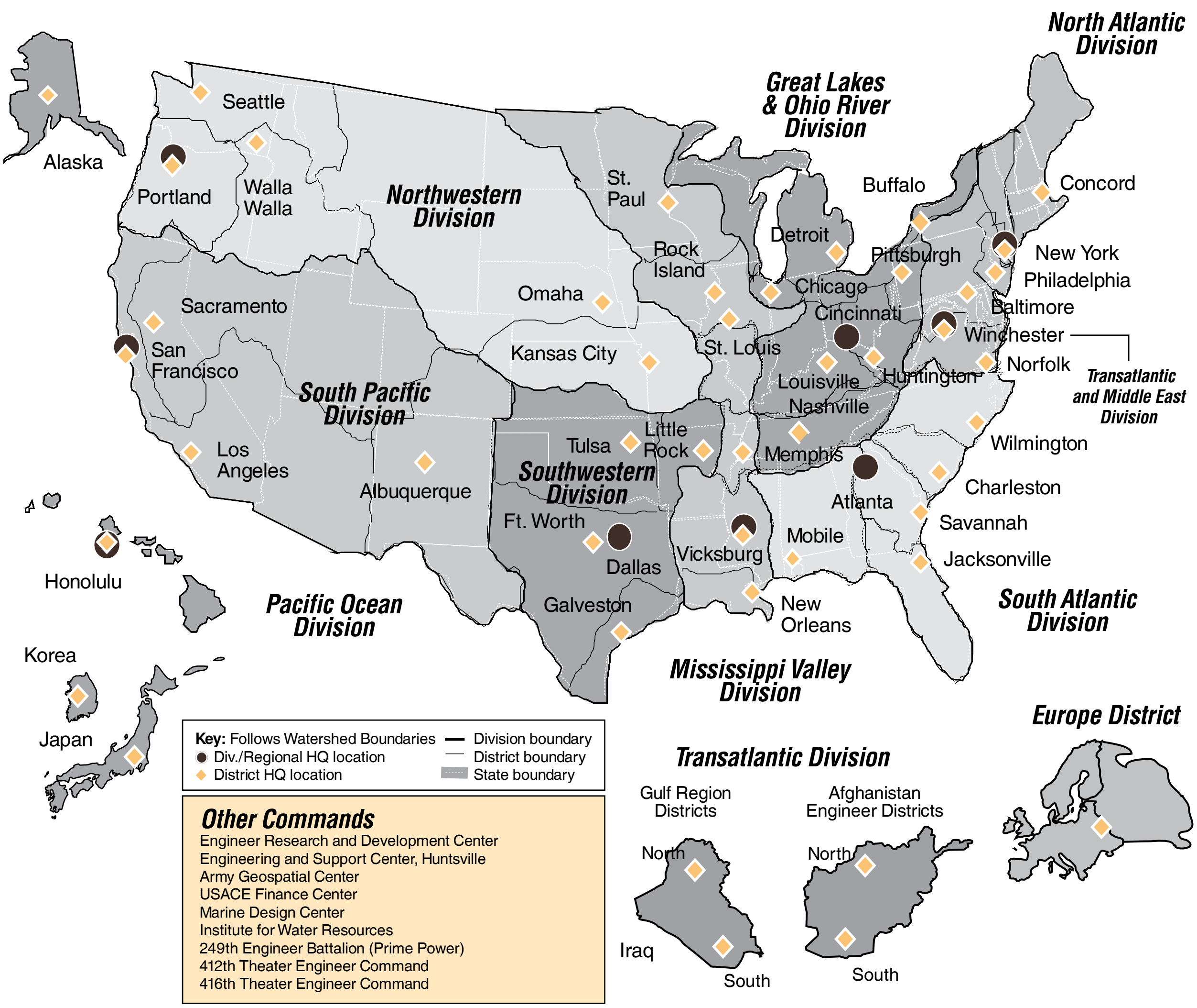


Fly Fisherman in the Little Red River on the tailwaters of Greers Ferry Lake Dam



Conemaugh River Lake

Figure 2. Civil Works Boundaries



through 8 of its 9 regional divisions and 38 of the Corps' 44 districts; the remaining districts are dedicated to military-related missions. The ninth division, the Transatlantic Division, and its three districts support operations in the Middle East.

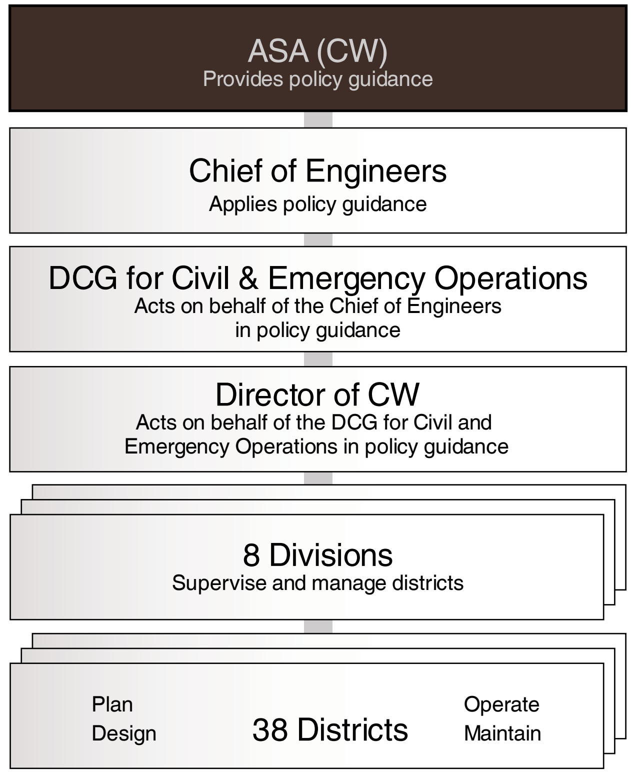
Figure 2 shows the division boundaries which are defined by watersheds and drainage basins and are reflective of the water resources nature of the civil works' mission. Through its Pacific Ocean and South Atlantic Divisions, the Corps also has civil works responsibilities in the Territory of American 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 civil works program's customer focus: 95 percent of employees work at the district level (in labs or field operating agencies) and demonstrate the fact that project management, operations, and maintenance activities are performed at the local (district) level. The program contracts out all of its construction and most of its design work to civilian companies. As many as 150,000 people are indirectly employed in support of civil works projects, and the Corps' contractual arrangements have served the nation well in times of emergency.

The Leadership

Oversight of civil works is provided through five levels of authority. As shown in Figure 3, the Assistant Secretary of the Army for Civil Works (ASA(CW)) (a Presidential appointee) is responsible for civil works policy. The Chief of Engineers is a military officer who reports to the ASA(CW) and is responsible for mission accomplishment. The Chief of Engineers delegates the management of this program to the Deputy Commanding General (DCG) for Civil and Emergency Operations who further delegates management of the civil works program to the Director of Civil Works. Through the DCG for Civil and Emergency Operations and the Director of Civil Works, the Chief of Engineers 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 mission. Corps divisions, commanded by division engineers, are regional offices responsible for the supervision and management of subordinate districts, to include oversight and quality assurance. Districts are the foundation of the civil works mission which is 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 to provide a framework for enhancing the sustainability of America's resources. The plan's strategic goals supported the Corps' strategic direction over the six-year period, FY 2004 – FY 2009. The USACE submitted its FY 2010 – FY 2014 plan in FY 2009 and the plan remains under Office of Management and Budget (OMB) review. Key performance measures, developed in conjunction with and approved by the OMB, are presented below.

Priority Goals

Last summer, federal agencies were asked to identify a limited number of ambitious, but realistic, high priority performance goals (HPPG) for the near term - FY 2010 and FY 2011. The USACE Civil Works Program has chosen to emphasize four goals which support the administration's broader policy priorities and have high direct value to the public. These goals are as follows:

Priority Goal 1 (Aquatic Ecosystem Restoration and Regulatory): Provide sustainable development, restoration, and protection of the nation's water resources by restoring degraded habitat on 10,300 acres during 2011 in the Aquatic Ecosystem Restoration business line. This will result in an increase equal to 17 percent of the total acreage estimated to have been restored during 2005-2010 and achieving no net loss of aquatic resource function through avoidance and mitigation in Regulatory .

Priority Goal 2 (Flood Risk Management): Reduce the nation's risk of flooding that damages property and places individuals at risk of injury or loss of life.

Priority Goal 3 (Inland Navigation): Help facilitate commercial navigation by providing safe, reliable, highly cost-effective, and environmentally-sustainable waterborne transportation systems.

Goal 4 (Hydropower): Increase the Hydropower performance metric of average peak unit availability for 353 generating units from the FY 2009 level of 88 percent to 90 percent by FY 2011. This will move the Corps closer to the industry standard level, which is 98 percent.

The FY 2010 performance on these priority goals is discussed in the relevant business line sections.

Strategic 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.

Funding History: The first row of Table 1 indicates the funding for FY 2010 and actual expenditures for the investigations, major rehabilitation and construction program .

Performance Indicators: To measure progress in meeting the Goal 1 objectives, the Corps uses performance indicators. These indicators are related to investigations and construction activities for inland and intracoastal waterways and coastal ports and harbors, as well as to the efficiency of the overall, combined navigation system. The indicators are described below and their measures are shown in Table 1.

Construction measures for the navigation system

In FY 2008, the Corps instituted and began reporting using the following performance measures.

- **High-return investments.** The percentage of funding to rehabilitate, construct, or expand projects that is allocated to high-return investments. High-return investment projects are defined as those with a benefit-to-cost ratio (BCR) of 3.0 or greater.
- **Percentage of reports recommending projects reflecting watershed principles.** The percentage of Chief of Engineers' reports recommending projects for authorization that meet criteria for industry-accepted watershed principles. This measure expresses a long-term goal and assesses progress achieved in watershed-based planning.
- **Average annual benefits attributable to preconstruction engineering and design (PED) work completed in current fiscal year.** This is the total average annual benefits (present value) attributable to PEDs. This measure assesses the effectiveness of PED in enabling transportation savings.
- **Average annual benefits realized by construction projects completed in current fiscal year.** The total average annual benefits (present value) realized by construction projects completed. This measure assesses the effectiveness of the construction program in realizing transportation savings.
- **Percentage change in funds required to complete all programmed work.** This represents the percentage 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, budgetable construction projects.

Performance Results—Construction and Investigations

Funding for investigations was used at various locations throughout the nation to continue the study and design of navigation improvements to increase the economic benefits of navigation systems and to reduce transportation costs.

There were several feasibility studies underway in FY 2010 but no Chief of Engineers' reports were completed for navigation projects. Construction funding for inland waterways was used to continue: (1) major rehabilitations of locks and dams; (2) dam safety assurance; (3) seepage control and static instability corrections; and (4) construction or replacement of locks and dams. Approximately 76 percent of the funds were programmed for high-return investments. While 24 percent was programmed for projects with BCRs less than 3.0, it is important to understand that 80 percent of those construction funds were used for mandatory dam safety assurance, seepage control, and static instability correction projects. As the Corps continues to assess the condition of the nation's dams, it must address the human safety issues that are being found. These dam safety projects are given funding priority, necessitating the deferral or delay of other critical projects.

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.

The ARRA of 2009 provided the Corps an additional $4 million in investigation funds and $741 million in construction funds which are being spent on inland and coastal navigation projects through FY 2011. Specifically, expenditures have been allocated for: (1) the advancement and completion of studies, (2) engineering and design, (3) construction, and (4) the major rehabilitation of navigation projects. The use of ARRA funds explains the discrepancy between target and actual figures in Table 1 below.

Flood Risk Management

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

Funding History: The first row of Table 2 displays investigation and construction funding for flood risk management.

Table 1. Navigation Construction and Investigation Performance Indicators

					FY 2010	
		FY 2007	FY 2008	FY 2009	Target	Actual
	Expenditures in millions of dollars	$609	$490	$597	$367	$753
Inland Waterways	Percentage of funds to high-return investments (BCR > 3)	Note 1	59%	42%	2%[4]	76%
Coastal Ports and Harbors	Percent of reports recommending projects reflecting watershed principles		100%[2]	0%	0%	0%[5]
	Average annual benefits attributable to PEDs completed in current FY in millions of dollars		$28.1	$7.9	0	$0[5]
	Average annual benefits realized by construction projects completed in current fiscal year in millions of dollars	$4.4	0	$8.3	$5.0	$44.7
	Percentage change in funds required to complete all programmed work.	Note 3				

NOTE 1: New performance measure for FY 2008, which was the first year data were collected.
NOTE 2: Represents the completion of one report.
NOTE 3: Performance targets will be established beginning in FY 2011, after 3 years of data have been collected.
NOTE 4: Funding for inland waterways construction is very constrained in FY 2010 due to the drawdown of the balance in the Inland Waterways Trust Fund, The limited funds will be used to advance ongoing high priority projects, which do not necessarily have a BCR greater than 3.0.
NOTE 5: No Chief of Engineers Reports or PEDs were completed in FY 2010.

Performance Indicators: To measure its progress in meeting the Goal 1 objective, the Corps uses performance indicators related to the construction program for flood risk management. The construction indicators are described below and their measures are shown in Table 2.

Construction measures for flood risk management

- **Additional people protected.** The increase in total affected population, with reduced risk at project design, attributed to project completion in the current fiscal year.
- **Flood damage prevented.** The estimated annual dollars of property damage avoided through 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 all completed Corps' flood control projects.
- **Screening portfolio risk assessments (SPRAs) completed.** The number of SPRAs completed in the applicable year.

The following three measures have been replaced with metrics more representative of the Corps' approach to dam safety:

- **Dam safety projects.** This represents the percentage of dams in the 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.

The following are new, self-explanatory, performance measures for which data have been collected in the recent years and reporting began in FY 2010.

- **DSAC I dams under study and/or remediation.**
- **DSAC II dams with completed issue evaluation studies.**

Performance Results—Construction

Investigations funding was used to advance continuing flood risk management studies throughout the nation. The purpose was to continue the study and design of flood risk management projects initiated to increase economic benefits of flood damages prevented and lives protected.

Construction funding was used to continue construction at 8 high risk dam safety projects and continue construction on 50 new flood risk management projects in order to bring these additional benefits online. A portion of the construction funds was targeted to complete the Grand Forks - East Grand Forks project. Construction on this project was completed during the 3rd Quarter of FY 2010, resulting in an additional 37,000 people with reduced risk and $28 million in damages prevented.

There were SPRAs completed on the 93 remaining dams which completes the screening assessment process and the use of this performance measure in the future. No additional issue evaluation studies (IES) were completed on screened dams in FY 2010 due to needed refinements to the IES assessment methodology.

In FY 2010, the Corps continued to expand the collaboration of state level intergovernmental partnerships (Silver Jackets Teams). Currently, 20 state teams have been formed and are actively working to address state flood mitigation priorities and actions that will result in coordinated actions to reduce flood risks and losses.

High Priority Performance Goal

The measures, targets, and results for the Flood Risk Management HPPG are shown in bold in the table below. The Grand Forks – East Grand Forks flood risk management project was funded for completion in FY 2010; the construction was completed on schedule, allowing realization of these benefits.

Hydropower

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

Performance Indicators: The availability of hydroelectric generating units during peak power-demand periods. Indicators of successful performance in meeting this

Table 2. Construction and Investigation – Flood Risk Management

	FY 2007 Note 1	FY 2008	FY 2009	FY 2010 Target	FY 2010 Actual
Expenditures in millions of dollars	$1,774	$1,107	$1,343	$1,265	$2,767
Additional people protected in thousands	142	0	645	37	37
Flood damage prevented in millions of dollars	$55.6	0	$10.4	$28.0	$28.0
Ten-year moving average in millions of dollars	$20.1	$22.3	$23.1	Note 2	
SPRA assessments completed	71	185	66	55	93
DSAC I dams under study or remediation	6	7	13	13	12[3]
DSAC II dams with completed issue evaluation studies	Note 4		2	20	0

NOTE 1: FY 2007 and prior year funds were for the total of all expenditures in Flood Risk Management and should not be compared to the FY 2008 and later construction expenditures.
NOTE 2: Data are collected from actual floods occurring throughout the year and data become available in March following the year of interest. The Corps makes no predictions or targets year-to-year; data are used for trend analysis only.
NOTE 3: This number represents 100% of those dams identified as DSAC I as of 1 Oct 2010. Reduction in total to 12 is due to Mill Creek Dam reclassification to DSAC II.
NOTE 4: This measure became effective in FY 2009.

objective are measured by generating capacity and forced outage rates.

Performance Results: The Corps uses the same indicators as in Goal 3; please see Table 9.

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

Aquatic Ecosystem Restoration

Objective: Restore the structure, function, and process of significantly degraded ecosystems to allow them to revert to a more natural condition. Invest in restoration projects or features that positively contribute to the nation's environmental resources in a cost-effective manner.

Funding History: The first row of Table 3 displays the funding for aquatic ecosystem restoration.

Performance Indicators: The Corps has established four indicators to assess progress in meeting this objective. Data are shown in Table 3.

- **Acres of habitat restored, created, improved, or protected—annual.** The number of acres of habitat restored in degraded ecosystems.
- **Nationally significant acres of habitat restored, created, improved, or protected—annual.** 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. Over the long term, through efficiencies in project execution or other actions, the goal is to restore the most acres per dollar expended.
- **Number of projects or separate elements physically completed.** This represents the actual number of projects or separate elements physically completed in the current fiscal year. Performance of the other measures is directly dependent upon this performance factor.

Performance Results: Significant progress was made on restoration of the Kissimmee River, Florida, with completion of a segment restoring a slightly over 3,000 acres. Several items were completed on the Missouri River restoring wetlands, emergent sandbar habitat, and backwater areas. Construction progressed on the restoration of Poplar Island, Maryland; Hamilton Wetlands, California; Upper Mississippi River Restoration; and modifications to the Chicago Sanitary and Ship Canal, which prohibits Asian carp from entering the Great Lakes from the Mississippi River. Physical construction was completed at 17 projects resulting in 4,540 restored acres, approximately 83 percent of which are nationally significant. Advancements were also made on a significant number of studies exploring ecosystem restoration options in a variety of diverse ecosystems across the country, to include the Louisiana Coastal Area Ecosystem Restoration.

High Priority Performance Goal

The measure for the Aquatic Ecosystem Restoration HPPG is shown in bold in the table below. The goal calls for 10,300 acres to be restored by the end of FY 2011; the FY 2010 accomplishments make a significant contribution to the Aquatic Ecosystem Restoration goal to restore degraded ecosystems to more natural conditions.

Regulatory

Objective: To execute the Regulatory mission 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 4 displays the funding for Regulatory.

Performance Indicators: Table 4 lists eight measures that serve as performance indicators in determining progress in meeting this objective.

- **Individual permit compliance.** The percentage of all individual permits on which the Corps completed an initial compliance inspection; measures permits issued during the previous fiscal year when authorized work began.
- **General permit compliance.** The percentage of all general permits on which the Corps completed an initial compliance inspection; measures permits issued during the previous fiscal year when authorized work began.
- **Mitigation site compliance.** The percentage of field compliance inspections completed on active mitigation sites each fiscal year. Active mitigation sites are those authorized and monitored through the permit process, but which have not met final approval under the permit special conditions.
- **Mitigation inspections or audits.** This represents the percentage of compliance inspections or audits completed on active mitigation banks and in-lieu-of-fee programs.
- **Resolution of noncompliance issues.** The percentage of noncompliance issues identified during the fiscal year in which the Corps reached resolution. This addresses noncompliance with permit conditions.
- **Resolution of enforcement actions.** The percentage of pending enforcement actions, i.e.,

Table 3. Aquatic Ecosystem Restoration Indicators

	FY 2007	FY 2008 Note 1	FY 2009	FY 2010 Target	FY 2010 Actual
Expenditures in millions of dollars	$340	$429	$492	$568	$531
Acres of habitat restored, created, improved, or protected (annual)	4,838	2,435	10,480	9,900	4,540
Nationally significant acres of habitat restored, created, improved, or protected (annual)	2,987	1,986	1,380	4,200	3,760
Cost per acre to restore, create, improve, or protect nationally significant habitat	$6,800	$6,700	$6,600	$21,000	$9,600
Number of projects or separate elements physically completed	Note 2		14	42	17

NOTE 1: Starting with 2008 this business line is crediting 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 is due to the increased use of fully-funded contracts and funding of the out-year monitoring requirements.

NOTE 2: New performance measure for FY 2009 which is the first year of reporting.

unauthorized activities identified during the fiscal year in which the Corps reached resolution.

- **General permit decisions.** The percentage of general permit application decisions made within 60 days.
- **Individual permits.** The percentage of general individual permit application decisions made within 120 days. This standard does not include individual permits with formal Endangered Species Act consultations.

Performance Results

In FY 2010, Regulatory exceeded all performance targets. This was largely due to the additional $25 million provided as part of ARRA. Funds from the ARRA were use in support of term and temporary labor, as well as contract support. This additional labor pool and contracts afforded districts the opportunity to focus full-time staff on performance and performance-related activities, including the HPPG. Four of the eight performance indicators are post-permit, compliance–based; the target number of actions requiring compliance is based on the issuance of permits in the previous five years. This continues to result in a large number of actions requiring compliance.

High Priority Performance Goal

The regulatory portion of the Corps' HPPG is no net loss of aquatic resource function through avoidance and mitigation. The measure, target, and results are shown in bold in the table below. Achievement of this portion of the goal is evaluated by the permittee's compliance with the permit. The target was established based on the number of permits issued requiring compensatory mitigation in the previous fiscal year.

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: (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 5 displays funding for environmental remediation.

Performance Indicators: The measures listed in Table 5 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

Table 4. Regulatory Indicators

				FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual
Expenditures in millions of dollars	$159	$176	$190	$190	$209
Percentage of compliance inspections on individual permits	11%	22%	25%	10%	26%
Percentage of compliance inspections on general permits	7%	7%	11%	5%	13%
Percentage of active mitigation sites inspected	7%	18%	37%	5%	10%
Percentage of compliance inspections on active mitigation banks	63%	39%	44%	20%	34%
Percentage of resolution on noncompliance with permit conditions or mitigation requirements	56%	28%	38%	20%	40%
Percentage of resolution on pending enforcement actions	82%	34%	37%	20%	38%
Percentage of general permit application decisions made within 60 days	78%	82%	88%	75%	92%
Percentage of standard permits and letter of permission permit decisions made within 120 days	53%	51%	64%	50%	67%

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 increases. 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.** When warranted by risk or other limiting factors, action memoranda allow the Corps to move toward reducing risk more rapidly than through production of a ROD. No action memoranda 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.** The cumulative percentage of FUSRAP funding expended on cleanup activities rather than on studies. The baseline for this measure was established in FY2004; results are reported every three years.
- **Remediation of contaminated material.** The cost to dispose of contaminated material as measured in cubic yards. Data for this measure will not be reported again until FY 2013.

Performance Results

The FY 2010 funds were used to continue remedial activities at the Linde, Maywood, Shpack, St. Louis Vicinity Property, St. Louis Downtown, Iowa Army Ammunition Plant, HISS/Latty, and W. R. Grace sites. As in FY 2009, the actual amount of contaminated soil or material removed was increased due to the availability of ARRA funds. Approximately 212,304 cubic yards of contaminated material were removed and, of this amount, 82,304 cubic yards were a direct result of ARRA funding.

Table 5. Remedial Action Indicators

				FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual
Expenditures in millions of dollars	$138	$132	$127	$134	$166
Number of RODs signed	5	2	1	1	1
Remedial investigations completed	0	2	1	1	2
Action memos signed	0	0	0	0	0
Contaminated material removed in thousand cubic yards	187	154	143	126	212
Individual properties returned to beneficial use	27	40	61	77	92
Remedies in place or response complete	4	0	0	0	1
Percentage of funding expended on cleanup	Note 1	84%	Note 1	Note 1	
Cost of remediation of contaminated material per cubic yard	Note 2		$496	Note 3	

NOTE 1: This was a new measure for FY 2008. The measure is cumulative and data will be reported every third year.
NOTE 2: Data collection on this measure begins in FY 2009.
NOTE 3: Results for this measure will not be reported again until FY 2013.

Remedial investigations continued at all other FUSRAP sites. A groundwater ROD document was completed at the Colonie Interim Storage site. As a result of remedial activities completed in FY 2010, 31 (92 cumulative) properties have been returned to beneficial use.

The FUSRAP met or exceeded all of its FY 2010 performance indicators. Remedial investigation documents were completed as scheduled at the Guterl and Sylvania-Corning Plant sites. The program continues to use the Monte Carlo approach to cost and schedule risk analysis. This approach continues to improve the Corps' performance and ability to repair past environmental damage.

Strategic 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, and channels.

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

Funding History: The first row of Table 6 displays funding for the operations and maintenance portion of Navigation.

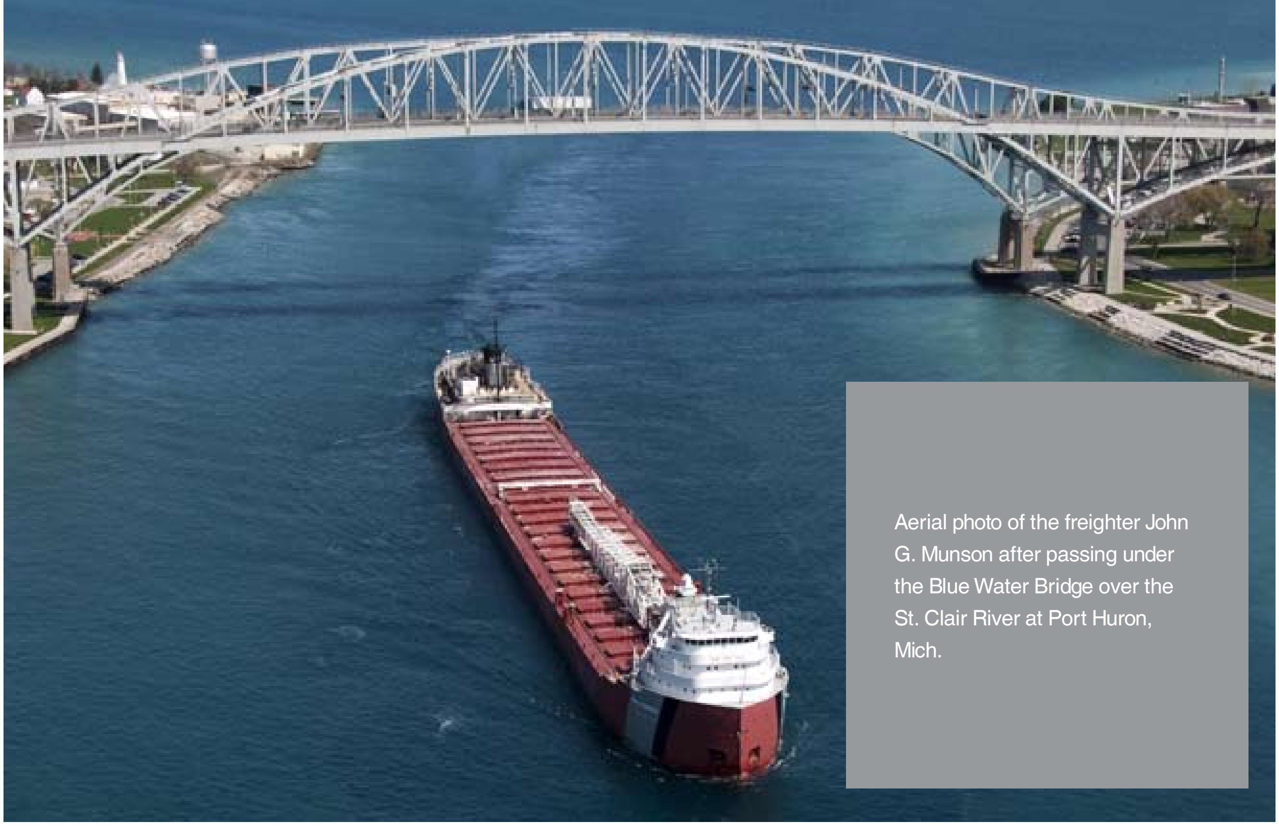
Performance Indicators: To measure progress in meeting Goal 3 objectives, the Corps uses performance indicators that (1) relate to O&M activities for inland and intracoastal waterways, coastal ports, and harbors; and (2) relate to the efficiency of the overall, combined navigation system. Indicators are described below and their measures are shown in Table 6.

Operation and maintenance measures for inland and intracoastal waterways

- **Ton-miles.** The sum total of movement of cargo on a specific waterway; this measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the particular inland or intracoastal waterway. Although there is no specific Corps-generated target, this indicator is used for trend analysis.
- **Segment availability.** The number of hours over 24 that mechanical-driven failure or shoaling results in the closure of all or part of a high or moderate commercial-use segment. 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 that were developed for the Navigation HPPG, preventable lock closures over 24 hours and over 7 days, are proxies for this 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 rehabilitations.
- **Efficiency measure.** This measures the O&M costs per ton of cargo shipped. It assesses the efficiency of the commercial navigation system at a particular coastal port or harbor.

The Corps developed new performance measures and began data gathering in FY 2008. Data has not been reported until FY 2010.

- **Channel availability, high-use projects.** This measures the percentage 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.
- **Percentage of high-use segments with a good service level.** This represents the percentage 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.



Aerial photo of the freighter John G. Munson after passing under the Blue Water Bridge over the St. Clair River at Port Huron, Mich.

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 system use; data collected are for the purpose of trend analysis. No specific target is generated by the Corps.
- **Channel availability, high-use projects.** This represents the percentage of time that high commercial traffic navigation channels are available to commercial users. There are a total of 59 high-use projects, defined as those that pass 10 million or more tons of cargo per year.

In FY 2008, the Corps instituted new performance measures and began gathering data. Data will be reported beginning in FY 2011.

- **Channel availability, moderate-use projects.** This represents the percent of time that moderate commercial traffic navigation channels are available to commercial users. There are a total of 100 moderate-use projects that are defined as those passing 1-10 million tons of cargo per year.
- **Channel availability, low-use projects.** The percentage of time that low commercial-use channels, harbors, and ports are available to all current users. There are about 1,000 low-use projects that are defined as those passing less than 1 million tons of cargo per year.

Performance Results

This business line continues to be successful in providing significant navigation benefits to the nation; however, it 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. Over one half of the Corps' locks have exceeded their 50-year service life and are requiring increased maintenance to keep them functioning. These same funding shortfalls, coupled with increased costs in dredging operations and construction, are affecting the Corps' ability to properly maintain its infrastructure and channels. There has been a 27 percent increase in dredging costs in recent years, which corresponds to the near doubling of fuel purchasing costs and similarly significant increases in steel and labor costs. Also, many of the new channel deepenings require additional maintenance. In addition, new environmental requirements that require the construction of new, more distant dredged material placement sites have increased the cost of dredging our channels. 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 appropriation and the Mississippi River and Tributaries appropriations were used to fund (1) continued operation and maintenance of 241 locks at 175 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 authorized dimensions. Many locks and dams received only 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 to four years. For these projects, authorized channel depths (for the channel's center half) were available approximately 35 percent of the time during FY 2005 – FY 2008. The condition of moderate-and low-use inland and intracoastal waterways, as well as coastal ports and harbors, is expected to continue to decline.

The ARRA provided an additional $1 billion in O&M funding that was expended by the end of FY 2010. Numerous contract awards were made during the second half of FY 2009 and during FY 2010 to perform additional maintenance of inland and intracoastal waterways and additional dredging and maintenance of coastal ports and harbors. These funds will help improve the overall condition of the inland and intracoastal waterways, help reduce lock closures due to mechanical breakdowns and failures, and help improve the conditions of high and moderate use coastal ports and harbors.

High Priority Performance Goal

The measures, targets, and results for the Inland Navigation HPPG are shown in bold in the table below. The targets are based on the median annual number of closures over the

Table 6. Navigation, Operation and Maintenance Activities Performance Indicators

					FY 2010	
		FY 2007	FY 2008	FY 2009	Target	Actual
	Expenditures in millions of dollars	$1,298	$1,296	$1,653	$1,379	$2,281
Inland waterways	Segment Availability – closures over 24 hours in thousands of hours	20	32	19	20	19
	Total O&M funds expended per segment ton-mile (5 year rolling average)	$0.0019	$0.0019	$0.0021	$0.0019	Note 3
	Ton-miles in billions of ton – miles by fiscal year	258	268	222	Note 1	
	Efficiency – Cost per ton	$0.92	$0.97	$0.83	$0.97	
	Channel availability, high-use projects	Note 2				
	Percentage of high-use segments with a good service level					
	Preventable lock closures over 24 hours	38	42	37	**37**	**61**
	Preventable lock closures over 7 days	18	28	19	**19**	**37**
Coastal ports and harbors	Tons of cargo in billions of tons	2.042	2.037	1.807	Note 1	Note 3
	Channel availability, high use projects	32%	32%	Note 4	37%	Note 4

NOTE 1: The Corps does not set targets for these measures.
NOTE 2: Data collection during FY 2008-2010; no targets will be set on these measures until FY 2011.
NOTE 3: Waterborne Commerce Statistics Center data for FY 2010 will not be available until late spring 2011.
NOTE 4: Data not available at time of printing.

previous five years. The instances and hours of scheduled and unscheduled lock closures due to mechanical failures have been increasing since FY 2000. The Corps anticipates these lock closures will continue to increase over the next several years and anticipates the five-year median target will increase accordingly. The Corps is prioritizing its annual funding and is completing repairs and maintenance work on locks with Recovery Act investments which will help arrest the increase in lock closures. These factors, together with anticipated higher targets in the future, will increase our ability to achieve the goal.

Flood Risk Management

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

Funding History: The first row of Table 7 presents O&M funding for flood risk management.

Performance Indicators: To measure progress in meeting Goal 3 objectives the Corps uses performance indicators that relate to O&M activities for flood risk management. The indicators are described below and their measures are shown in Table 7.

Operations and maintenance measures for Flood Risk Management

- **Operating projects in zones 21-25 (High Risk).** This measures the percentage of operating projects (dams, levees, channels, flood gates) in zones 21-25 of the relative risk ranking matrix.
- **Operating projects in zones 1-6 (Low Risk).** This measures the percentage of operating projects (dams, levees, channels, flood gates) in zones 1-6 of the relative risk ranking matrix.
- **Marginal cost of operations.** The marginal cost of O&M for all operating projects (dams, levees, channels, flood gates) relative to damages prevented; shown as a percentage, i.e., the cost of O&M divided by the cost of damages prevented.

Performance Results

The FY 2010 funds were used to operate and maintain federal projects and to inspect federal projects turned over to local sponsors. These resources supported 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 7. Reduction in the expected number of operating projects in the high risk zone is a result of improved project conditions realized by the use of ARRA funds in FY 2010 to perform increased maintenance activities on high risk operating projects.

Funding was also used to support dam safety functions. This included (1) monitoring and evaluating performance (instrumentation) of all dams, (2) implementing interim risk reduction measures at high risk projects, (3) performing all required inspections (periodic, post-earthquake, high-pool, etc.), (4) preparing emergency action plans, (5) performing site-specific dam safety training of project personnel, and (6) implementing force protection security features.

Table 7. Operations and Maintenance – Flood Risk Management

					FY 2010	
		FY 2007 Note 1	FY 2008	FY 2009	Target	Actual
	Expenditures in millions of dollars	$1,774	$678	$858	$600	$887
Operations & Maintenance	Operating projects in zones 21-25 (High Risk)	Note 2	96	50	103	80
	Operating projects in zones 1-6 (Low Risk)		49	74	68	85
	Marginal cost of operations		1.25%	3.70%	1.20%	2.30%

NOTE 1: Prior-year funds were for the total of all expenditures for Flood Risk Management and should not be compared to the FY 2008 and following year's O&M expenditures.
NOTE 2: New measure for FY 2008;, the first year data are collected.

Environmental Stewardship

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

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

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

Objective: To ensure 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 8 shows the funding for environmental stewardship.

Performance Indicators: To measure success in attaining the objectives above, the Corps developed seven performance indicators. Data on these indicators may be found in Table 8.

- **Mitigation compliance.** 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 percentage of Corps operating projects with Endangered Species Act responsibilities that meet those responsibilities.
- **Cultural resources management.** This measures the percentage of Corps operating projects that meet federally mandated cultural resource management responsibilities in relation to the number of projects with such responsibilities.
- **Healthy and sustainable lands and waters.** The number of Corps fee-owned acres classified in a sustainable condition, divided by the total number of Corps fee-owned acres. Sustainable is defined as being healthy and viable, not significantly impacted by any unmanageable factors and not requiring intensive management to maintain health. The acreage also meets operational goals and objectives established in applicable management documents.
- **Level-one natural resources inventory completion index.** This measures the Corps' efforts in completing basic, level-one natural resource inventories required by USACE Environmental Regulation 1130-2-540, *Environmental Stewardship Operations and Maintenance Policies*. These inventories are necessary to effect sound resource management decisions and strategy development. The percentage of acres for which level-one inventories are necessary and 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 derived by dividing the number of required master plans in compliance with regulation by the total number of required master plans.
- **Efficiency.** This concept is represented by 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 business line 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 emphasis, however, is on resource sustainability as opposed to revenue generation.

Performance Results

The Environmental Stewardship business line achieved 76 percent of its performance target in mitigation and 61 percent in endangered species. Of the projects with cultural resources requirements, 53 percent were able to meet all their responsibilities and the other 47 percent were able to meet some of their responsibilities. The Corps inventoried approximately 63 percent of the lands for which it needed to complete level-one natural resources inventories; the other 37 percent typically had some information gathered, but were incomplete, e.g., wetlands mapped, but soils not catalogued.

In FY 2010, lands and waters in healthy and sustainable condition are estimated at only 45 percent of total Corps fee-owned acres, a small improvement over FY 2009, due in part to refocusing efforts towards this performance measure and somewhat less on mitigation compliance and endangered species protection.

The master plan completion rate is 31 percent, a slight improvement but still low due to insufficient funding coupled with the fact that complete revision of a master plan for a large project typically costs $200,000 and takes several years.

Hydropower

Objective: To improve the efficiency and effectiveness of existing Corps water resource projects. The Corps seeks to maintain a high level of reliability and peak availability of hydroelectric power-generating capability at multipurpose reservoir projects.

Funding History: The first row of Table 9 shows capital improvements and O&M expenditures for the Hydropower business line over the past three-year period.

Performance Indicator: Performance indicator results and targets for the year are displayed in Table 9.

- **Percentage of time units are available to produce power.** The amount of time during a given year that hydroelectric generating units are available to the Power Marketing Administration's (PMA) interconnected system.
- **Percentage of time available during periods of peak demand.** This measures the amount of time during daily peak demand periods that hydroelectric generating units are available to the PMA's interconnected system.
- **Percentage of forced outages.** The percentage 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.
- **Electrical reliability standards met.** The percentage of Federal Energy Regulatory

Table 8. Environmental Stewardship Indicators

				FY 2010	
	FY 2007	FY 2008	FY 2009	Target	Actual[1]
Expenditures in millions of dollars	$113	$134	$150	$99	$212
Mitigation compliance	86%	100%	100%	76%	76%
Endangered species protection	Note 2	100%	100%	61%	61%
Cultural resource management	63%	72%	67%	53%	53%
Healthy and sustainable acreage	18%	24%	38%	45%	45%
Level-one natural resources inventory completed	40%	46%	59%	63%	63%
Master plans completed	27%	27%	27%	32%	32%
Efficiency in cents-on-the-dollar	$0.12	$0.11	$0.11	Note 3	$0.11

NOTE 1: All FY 2010 performance results are estimates; actuals will not be available until the end of the calendar year.
NOTE 2: This measure became effective in FY 2008.
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.

Table 9. Hydropower Indicators

	FY 2007	FY 2008	FY 2009	FY 2010 Target	FY 2010 Actual
Expenditures in millions of dollars	$228	$237	$299	$211	$352
Percentage of time units are available	84.35%	85.86%	86.35%	87.00%	84.80%
Percentage of time available during periods of peak demand	84.26%	86.13%	87.83%	89.00%	**86.82%**
Percentage of time units are out of service due to unplanned outage	4.67%	5.08%	4.27%	4.00%	4.29%
Electric reliability standards met	Note 1			90%	Note 2

NOTE 1: This measure was added during FY 2007 and developed during FY 2008 and FY 2009; FY 2010 will be the first year to report data.
NOTE 2: Data was unavailable at time of printing.

Commission (FERC) and the National Electric Reliability Council-approved electric reliability standards that are met or exceeded. The FERC has no jurisdiction over the Corps' hydropower production; however, the Corps takes reliability seriously and has voluntarily chosen to comply with all applicable FERC standards, subject to the availability of resources.

Performance Results

Table 9 shows a decrease in FY 2010 funding for the Hydropower business line.

The length of time hydropower-generating units were actually available to produce power decreased when compared to the previous year, along with a decrease in availability during peak power demand periods. These decreases resulted in part from scheduled equipment outages for capital investments and equipment outages, resulting from aging equipment. The industry standards for availability and peak availability are 98 and 95 percent, respectively. Table 9 shows FY 2010 program performance for availability and peak availability to be approximately 10.20 and 11.38 percentage points below the industry standard, respectively. The Hydropower standard metric used for forced outages is 2 percent. Due primarily to funding constraints, the program's forced outage performance is 2.29 percentage points above the industry standard and 0.29 percentage points above the FY 2010 target.

The Corps' corporate electric reliability plan, implemented in September 2009, provides guidance for voluntary compliance with FERC electric-reliability standards within available funding. Compliance data is currently being collected.

High Priority Performance Goal

The measure for the Hydropower HPPG is shown in bold in the table below; the goal is 90 percent peak availability by the end of FY 2011. Regionally, when funding has been made available for major rehabilitations, peak availability has shown improvement; however, total peak availability has decreased over the years due to problems related to aging infrastructure. Additionally, taking equipment out of service for major rehabilitations has resulted in a lowering of peak availability while the work is being accomplished. In light of the austere fiscal environment and lack of resources for major maintenance, the Corps does not anticipate meeting this hydropower priority goal and intends to review it.

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.

Table 10. Recreation Indicators

	FY 2007	FY 2008	FY 2009	FY 2010 Target	FY 2010 Actual
Expenditures in millions of dollars	$299	$309	$380	$284	$557
Total NED benefits in millions of dollars	$1,353	$1,452	$1,500	$1,155	$1,610
Benefit-to-cost ratio	4.49	4.70	4.30	4.08	3.00
Cost recovery	16%	16%	15%	15%	8%
Park capacity in millions of days	74	74	74	74	74
Number of visitors in millions of visits	132	137	134	132	135
Visitor health and safety services	50%	48%	48%	47%	47%
Facility service	48%	47%	47%	43%	51%

Funding History: The first row of Table 10 shows the funding, in actual expenditures, for the Recreation business line.

Performance Indicators: The measures listed in Table 10 determine progress in meeting the Corps' recreation efficiency, service, and availability objectives. These indicators are explained below.

- **Total National Economic Development (NED) benefits.** NED[1] benefits are estimated using the unit day-value method which was originally developed by the Water Resources Council.
- **Benefit-to-cost ratio.** This is the ratio of NED benefits to actual expenditures or budget.
- **Cost recovery.** This measures the percentage of total recreation receipts to the recreation budget.
- **Park capacity.** This measures the capacity of facilities to provide recreation opportunities, expressed in millions of days/nights that recreation units were available for use.
- **Number of visitors.** This measures 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.[2] Activities that impact this measure (facility cleaning, mowing, visitor assistance, ranger patrols, park hosts, reservation services, and repairs), have been externally validated with visitors, partners, and other stakeholders.
- **Facility service.** The percentage of visitors served at a Corps-managed recreation area with a facility condition score of 4 or better[3], who indicate their experience was fair to good. The quality of a visitor's experience and satisfaction with Corps' facilities is directly related to the facility condition.

[1] *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).*

[2] *A typical park in peak season for the region provides cleaning five days a week, two to three ranger patrols and visitor contacts daily, contract law enforcement, periodic public safety programs, and ability to correct urgent repairs within one to three days.*

[3] *A facility condition score of 4 means the facility requires no more than routine maintenance (e.g., painting, caulking, asphalt patching, filling cracks) to reduce visitor health and safety risks and environmental degradation.*

Performance Results

Recreation funding in the regular civil works appropriation decreased again in inflation-adjusted terms from FY 2009 to FY 2010. Only 47 percent of people who visited Corps' parks were served at acceptable health and safety service levels. A total of 51 percent of visitors at Corps' parks was served at facilities at acceptable condition, a slight increase over last year; this increase is due to the facility improvements funded by ARRA.

In an attempt to mitigate the combined results of reduced funding and increasing demand, the Corps resorted to reductions in contract services and daily operating hours, as well as shortened recreation seasons.

Water Storage for Water Supply

Objective: To provide municipal and industrial (M&I) water supply storage in a cost-efficient and an environmentally and socially responsible manner in partnership with nonfederal water management plans, consistent with law and policy.

Funding History: The first row of Table 11 displays funding for water storage for water supply.

Performance Indicator: To assist in gauging progress, the Corps uses measures relating to the acre-feet of water stored and cost-recovery measures. These are shown in Table 11.

- **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, for present and future use, 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 costs 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.
- **Percentage of cost recovered.** The percentage of cost available for recovery compared to cost recovered.
- **Administrative yearly cost.** This measures the annual cost-to-collect fees and administer contracts.
- **Administrative yearly cost (input) per acre-foot of storage under contract (output).** This efficiency measure describes the cost-to-provide water storage.

Performance Results

Database development for the Corps' M&I water supply projects and contracts transformed between the start of FY 2006 and the end of FY 2010. This transformation changed the way the Corps collects data on its M&I contracts from a periodic paper data call to a computer database. The National Portfolio Assessment for Reallocations, a national study completed in FY 2009, developed (1) a portfolio of 107 Corps reservoir projects suitable for reallocation; (2) a list of 52 projects recommended as prime candidates for reallocation within the next few years; and (3) a report addressing alternative funding for reallocation studies, the recommended option of which would require legislation. The ARRA included $1.1 million to fund four water supply studies which will ultimately result in additional storage under contract and additional revenues returned to the U.S. Treasury. All studies are scheduled for completion in early FY 2011.

The current funding level provides the minimum amount necessary to continue the Water Storage for Water Supply business line 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 11. Water Storage for Water Supply

	FY 2007	FY 2008	FY 2009	FY 2010 Target	FY 2010 Actual[1]
Expenditures in millions of dollars	$2	$3	$7	$5	$6
Acre-feet available in millions of acre-feet	9.379	9.2	11.1	11.3	11.1
Acre-feet under contract in millions of acre-feet	9.083	8.9	10.5	10.7	10.5
Percentage under contract	96.8%	96.7%	94.6%	94.7%	94.6%
Costs available for recovery in millions of dollars	$1,282.3	$1,285.2	$1,429.0	$1,481.2	$1,453.0
Costs recovered in millions of dollars	$868.4	$932.2	$836.2	$850.0	$848.0
Percentage recovered	67.8%	72.2%	56.4%	57.4%	58.3%
Administrative yearly cost in millions of dollars	Note 2	$1.2	$1.0	$1.0	$1.0
Administrative yearly cost per acre-foot of storage under contract		$0.13	$0.10	$0.10	$0.10

NOTE 1: All FY 2010 performance results are estimates; actual results will not be available until the end of the calendar year.
NOTE 2: These efficiencies measures were established at the end of FY 2007; FY 2008 is the first year that data are available.

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

The purpose of this goal is to manage the risks associated with all types of hazards and to increase the civil works emergency management responsiveness to disasters in support of federal, state, and local emergency management efforts. Disaster preparedness and response capabilities are not only 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 12 indicates funding for emergency preparedness and response and recovery operations.

Performance Indicators: The four primary measures, listed in Table 12, assist 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 (PRTs) 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 O&M 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 P.L. 84-99. This measure is the percentage of projects damaged during a fiscal year and repaired prior to the next flood season.
- **Project condition ratings.** Under the Corps' rehabilitation and inspection program, inspected projects are given condition ratings characterizing their state of maintenance. This measure is the percentage of total projects inspected during the fiscal year that received a rating of at least minimally acceptable.

Table 12. Emergency Preparedness Indicators

	FY 2007 Note 1	FY 2008 Note 1	FY 2009 Note 1	FY 2010 Target Note 2	FY 2010 Actual Note 1
Expenditures in millions of dollars	$1,561	$847	$1,405	$41	$1,515
Planning response team readiness	72%	85%	83%	91%	87%
Project inspection performance	97%	58%	67%	93%	77%
Damaged project restoration	29%	90%	14%	35%	61%
Project condition ratings	90%	79%	79%	91%	67%

NOTE 1: Funding was provided in supplemental appropriations to repair projects damaged by coastal storm and flooding.
NOTE 2: The funding target for FY 2010 was to fund preparedness activities.

Performance Results

During FY 2010, the Corps maintained 48 national PRTs at a readiness rate of 87 percent fully manned, trained, and equipped. Teams are trained and prepared to deploy to a disaster area and provide assistance for temporary power and 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.

During FY 2010, the Corps conducted 77 percent (total of 1,986) of the scheduled inspections of flood risk management 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, 67 percent received minimally acceptable or better project condition ratings. Major flooding in Washington state resulted in damages to 38 projects. The Corps provided assistance for the American Samoa earthquake, Oklahoma ice storms, North Atlantic nor'easter, and spring floods in New England. In response to the Mississippi River tributary floods in Louisiana; California/Arizona January flooding; and spring floods in Iowa, Minnesota, North Dakota, South Dakota, and Tennessee; the Corps provided 36 pumps, over 300,000 sandbags, 35,000 feet of temporary levees, and issued 22 emergency contracts. They also issued more than 2 million sandbags, 15 pumps, and 1,100 feet of Portadam® in response to 2 months of summer flooding on the Missouri and Mississippi Rivers and tributaries in Wyoming, Nebraska, Iowa, South Dakota, Missouri, and Kansas.

As a result of the fall nor'easter and extensive spring/summer flooding, repairs are needed for over 80 projects at an estimated cost of over $125 million. Overall, the Corps achieved a 61 percent performance rating for the completion of project repairs prior to the next flood season.

Two Corps' employees inspect a boil in an emergency levee built in Fargo, N.D., during the 2009 spring flooding of the Red River of the North

Possible Future Effects of Existing Conditions

Flood Risk Management

As mentioned previously, the business line's goal is to reduce the nation's risk to life and damages due to flooding and coastal storms. The nation faces increasing flood hazards, putting existing developments[4] at risk. This is compounded by the fact that new development continues to occur 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 period 1995 – 2004.

Significant investments are required to identify, evaluate, and maintain existing flood infrastructure, e.g., levees, dams, and 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 MTS goal is to provide a safe, secure, and globally-integrated network that, in harmony with the environment, ensures reliable movement of people and commerce along 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 foreign tonnage is over $900 billion and it 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

4 Development in this context refers to cities, towns, houses, businesses, infrastructure, and other man-made objects that have been constructed in low-lying areas or floodplains.

of aging locks have driven up the number of unscheduled lock closures. For example, closures due to mechanical breakdowns increased from less than 9,000 hours per year in FY 2000 to more than 26,000 hours per year in FY 2008. These closures have a negative effect on the economy by imposing costs on shippers, carriers, and electric utilities. An unscheduled 52-day closure at Greenup Locks and Dams in Ohio, for example, cost shippers and carriers over $53 million. Additionally, rehabilitations and improvements to inland waterways are jeopardized by the low balance in the Inland Waterways Trust Fund because half of the cost of improvements is derived from this fund.

Coastal Channels and Harbors: Existing high-volume channels and harbors were available only 32 percent of the time in FY 2007 and FY 2008. Inadequate channels negatively 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 percent. Additional economic costs will accrue by postponing investment in deeper and wider channels that address projected future demand.

Environment: Aquatic Ecosystem Restoration

As mentioned previously, the goal of Aquatic Ecosystem Restoration 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 cost-effective projects that modify 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. Climate change may make this balancing act even more difficult in the future. In FY 2010, 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, as well as the ability to effectively build and evaluate a national initiative. In the absence of a standard metric, the Corps continues to work with other agencies and invest in research and development to objectively evaluate disparate ecosystem restoration projects and prioritize restoration needs. The Corps continues to try to balance funding to address the variety of resources needed across the country.

Wildflowers at Black Butte Lake, view from Buckhorn towards Angler's Cove

Analysis of Financial Statements

Civil Works Balance Sheet

The USACE balance sheet includes total assets that exceed $58.1 billion, which is an approximate 4 percent decrease from FY 2009. 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 $20.8 billion and $28.4 billion, respectively.

Fund Balance with Treasury decreased $4.1 billion, or 16 percent. The USACE also received $4.6 billion under the American Recovery and Reinvestment Act, 2009 (ARRA) during 2nd Quarter, FY 2009. There was no ARRA funding received in FY 2010.

Liabilities are approximately $7.8 billion, comprised primarily of other liabilities, accounts payable and environmental liabilities, which represent approximately 65 percent of the total.

Net Position

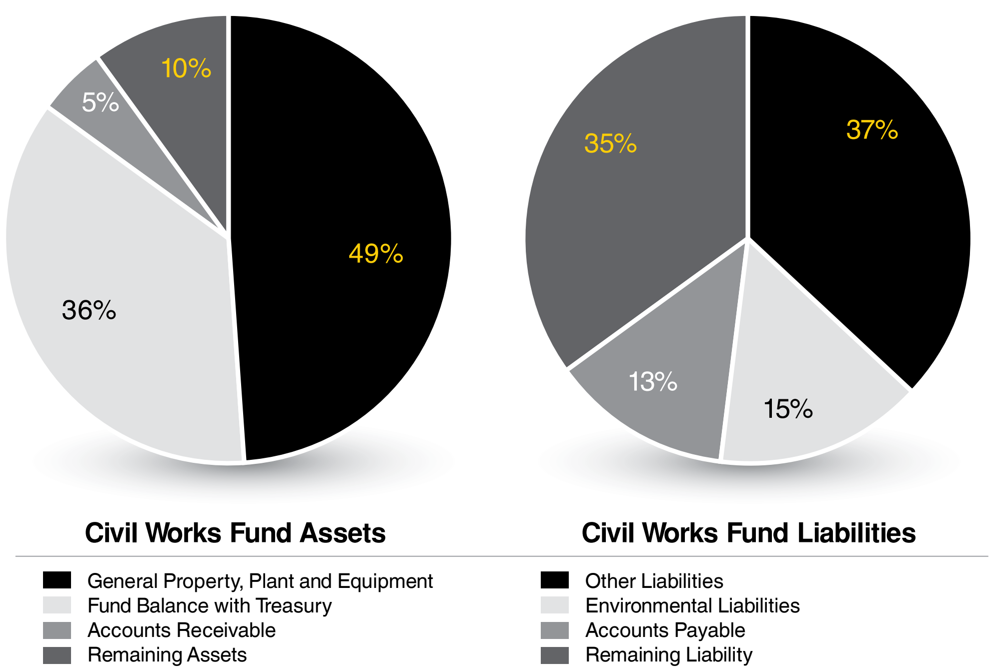
The USACE Net Position at the end of 2010, disclosed in the Balance Sheet and Statement of Changes in Net Position was $50.3 billion, a decrease of $2.7 billion or 5 percent from the FY 2009 Net Position of $53.0 billion.

The USACE Net Position consists of the sum Unexpended Appropriations of $12.9 billion and Cumulative Results of Operation totaling $37.4 billion.

Net Cost

The USACE Net Cost of Operations for FY 2010 was $10.1 billion. This is an increase of $2.5 billion or 33 percent from the previous year's net cost of $7.6 billion. Public costs increased $2.0 billion primarily due to ARRA projects with the higher increases in the 3rd and 4th Quarters, FY 2010. There was also a decrease in earned revenue of $646.3 million due primarily to projects nearing completion in reimbursable work supporting U.S. Customs and Border Protection for border security projects during the 1st and 2nd Quarters, FY 2009. The cost is presented in its entirety under the Civil Works Program.

Figure 4. Select Civil Works Fund Assets and Liabilities



Budgetary Resources

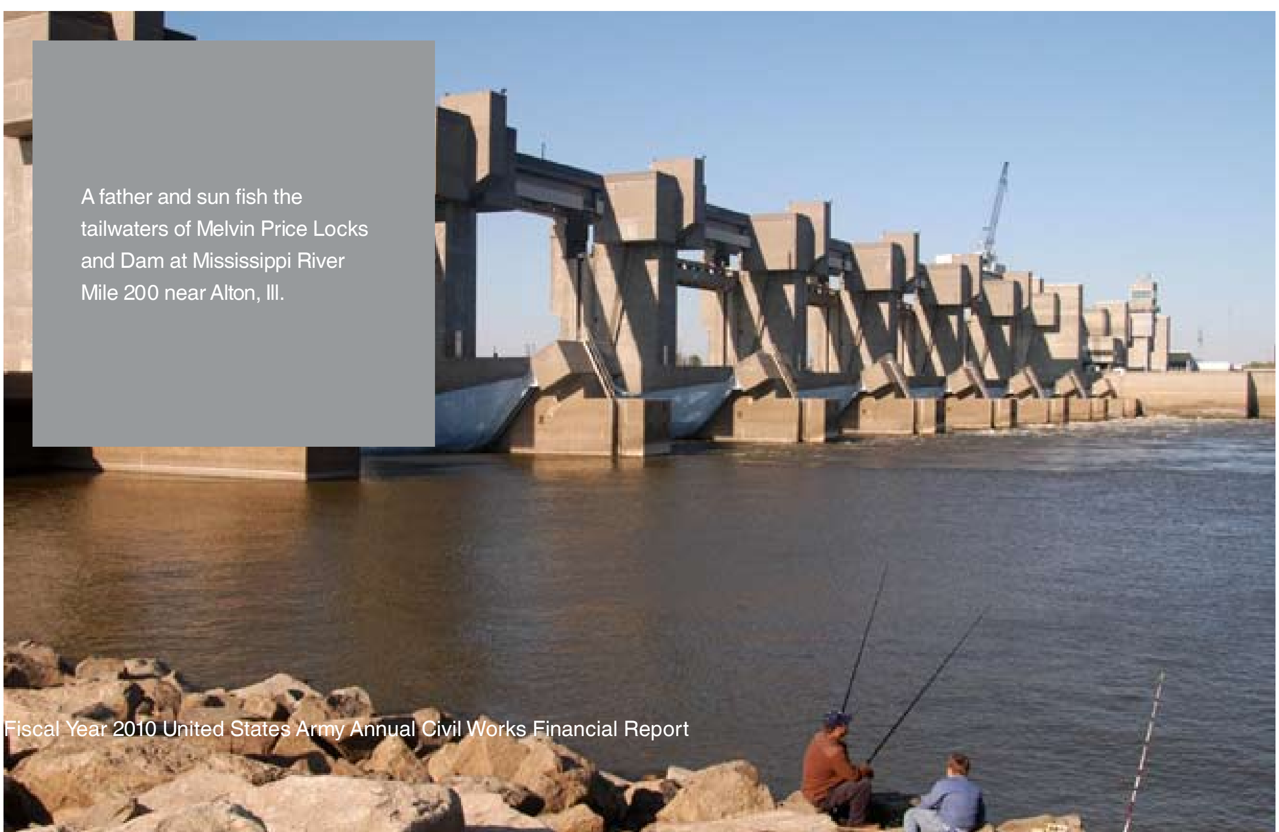
The USACE Combined Statement of Budgetary Resources provides information on the budgetary resources that were made available during the year and the status of those resources at the end of the fiscal year. These resources consist of the balance at the beginning of the year, appropriations received during the year, and spending authority from offsetting collections. Obligations of $23.8 billion and $23.0 billion were incurred as of September 30, 2010, and September 30, 2009, respectively. Total budgetary resources in FY 2010 and FY 2009 were $34.9 billion and $40.6 billion, respectively. Total budgetary resources decreased by $5.7 billion, or 14 percent. The USACE received $4.6 billion under the ARRA during the 2nd Quarter, FY 2009.

Table 13. Select Civil Works Fund Assets and Liabilities

(Amounts in billions)

Asset Type	2010 Consolidated	2009 Consolidated	Change	Percentage of FY 2010 Assets
General Property, Plant and Equipment	$28.37	$26.98	$1.39	49%
Fund Balance with Treasury	20.84	24.94	(4.10)	36%
Accounts Receivable	3.00	3.01	(0.01)	(5%)
Remaining Assets	5.90	5.36	0.54	10%
Total Assets	**$58.11**	**$60.29**	**($2.18)**	**100%**

Liability Type	2010 Consolidated	2009 Consolidated	Change	Percentage of FY 2010 Liabilities
Other Liabilities	$2.84	$2.55	$0.29	37%
Accounts Payable	1.15	1.05	0.10	15%
Environmental Liabilities	1.04	1.03	0.01	13%
Remaining Liability	2.73	2.64	0.09	35%
Total Liabilities	**$7.76**	**$7.27**	**$0.49**	**100%**



A father and sun fish the tailwaters of Melvin Price Locks and Dam at Mississippi River Mile 200 near Alton, Ill.

Civil Works Fund Principal Financial Statements, Notes, Supplementary Information, and Auditor’s Report

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.

US Army Corps of Engineers - Civil Works

CONSOLIDATED BALANCE SHEET

As of September 30, 2010 and 2009 (Amounts in thousands)		2010		2009
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	20,839,809	$	24,939,624
Investments (Note 4)		5,741,313		5,228,046
Accounts Receivable (Note 5)		498,100		594,679
Total Intragovernmental Assets	$	27,079,222	$	30,762,349
Cash and Other Monetary Assets (Note 6)	$	972	$	1,356
Accounts Receivable, Net (Note 5)		2,504,377		2,415,554
Operating Materials and Supplies, Net (Note 7)		156,518		128,169
General Property, Plant and Equipment,Net (Note 8)		28,365,165		26,983,742
Other Assets		282		363
TOTAL ASSETS	$	58,106,536	$	60,291,533
Stewardship Property, Plant, and Equipment (Note 9)				
LIABILITIES (Note 10)				
Intragovernmental:				
Accounts Payable	$	44,287	$	115,319
Debt (Note 11)		5,634		8,074
Due to Treasury - General Fund (Note 13)		2,484,625		2,396,351
Other Liabilities (Notes 13 & 14)		1,026,380		1,004,908
Total Intragovernmental Liabilities	$	3,560,926	$	3,524,652
Accounts Payable - Public	$	1,110,015	$	932,095
Federal Employee and Veterans' Benefits		243,460		233,867
Environmental and Disposal Liabilities (Note 12)		1,038,122		1,034,792
Other Liabilities (Notes 13 & 14)		1,810,463		1,545,417
TOTAL LIABILITIES	$	7,762,986	$	7,270,823
Contingencies (Note 14)				
NET POSITION				
Unexpended Appropriations - Other Funds	$	12,861,828	$	18,337,899
Cumulative Results of Operations - Earmarked Funds (Note 19)		9,192,267		7,735,168
Cumulative Results of Operations - Other Funds		28,289,455		26,947,643
TOTAL NET POSITION	$	50,343,550	$	53,020,710
TOTAL LIABILITIES AND NET POSITION	$	58,106,536	$	60,291,533

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

CONSOLIDATED STATEMENT OF NET COST

As of September 30, 2010 and 2009 (Amounts in thousands)	2010	2009
Program Costs		
Gross Costs (Note 15)	$ 13,085,826	$ 11,160,800
(Less: Earned Revenue)	(3,014,594)	(3,599,070)
Net Cost of Operations	$ 10,071,232	$ 7,561,730

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2010 and 2009 (Amounts in thousands)	2010 Earmarked	2010 Other	2010 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 7,735,168	$ 26,947,643	$ 34,682,811
Budgetary Financing Sources:			
Appropriations used	0	10,233,720	10,233,720
Nonexchange revenue	1,502,034	(571)	1,501,463
Transfers-in/out without reimbursement	113,074	90,029	203,103
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	0	708	708
Transfers-in/out without reimbursement	0	595,618	595,618
Imputed financing from costs absorbed by others	625	334,906	335,531
Other (+/-)	0	0	0
Total Financing Sources	$ 1,615,733	$ 11,254,410	$ 12,870,143
Net Cost of Operations	158,634	9,912,598	10,071,232
Net Change	1,457,099	1,341,812	2,798,911
Cumulative Results of Operations	$ 9,192,267	$ 28,289,455	$ 37,481,722
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 18,337,899	$ 18,337,899
Budgetary Financing Sources:			
Appropriations received	0	4,754,176	4,754,176
Appropriations transferred-in/out	0	9,000	9,000
Other adjustments (rescissions, etc.)	0	(5,527)	(5,527)
Appropriations used	0	(10,233,720)	(10,233,720)
Total Budgetary Financing Sources	$ 0	$ (5,476,071)	$ (5,476,071)
Unexpended Appropriations	0	12,861,828	12,861,828
Net Position	$ 9,192,267	$ 41,151,283	$ 50,343,550

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2010 and 2009 (Amounts in thousands)	2009 Earmarked	2009 Other	2009 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 6,307,401	$ 26,418,483	$ 32,725,884
Budgetary Financing Sources:			
Appropriations used	0	7,584,873	7,584,873
Nonexchange revenue	1,411,613	(41)	1,411,572
Transfers-in/out without reimbursement	61,562	72,709	134,271
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	661	2,164	2,825
Transfers-in/out without reimbursement	0	109,331	109,331
Imputed financing from costs absorbed by others	23	275,762	275,785
Other (+/-)	1	(1)	0
Total Financing Sources	$ 1,473,860	$ 8,044,797	$ 9,518,657
Net Cost of Operations	46,093	7,515,637	7,561,730
Net Change	1,427,767	529,160	1,956,927
Cumulative Results of Operations	$ 7,735,168	$ 26,947,643	$ 34,682,811
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ 0	$ 10,316,712	$ 10,316,712
Budgetary Financing Sources:			
Appropriations received	0	15,608,143	15,608,143
Appropriations transferred-in/out	0	(2,083)	(2,083)
Other adjustments (rescissions, etc.)	0	0	0
Appropriations used	0	(7,584,873)	(7,584,873)
Total Budgetary Financing Sources	$ 0	$ 8,021,187	$ 8,021,187
Unexpended Appropriations	0	18,337,899	18,337,899
Net Position	$ 7,735,168	$ 45,285,542	$ 53,020,710

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2010 and 2009 (Amounts in thousands)	2010	2009
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 17,518,061	$ 11,692,717
Recoveries of prior year unpaid obligations	40,133	862,852
Budget authority		
Appropriation	6,195,338	17,012,826
Spending authority from offsetting collections		
Earned		
Collected	10,201,874	11,886,071
Change in receivables from federal sources	4,423	(246,081)
Change in unfilled customer orders		
Advance received	62,177	259,171
Without advance from federal sources	(192,357)	(1,918,599)
Expenditure transfers from trust funds	851,019	862,543
Subtotal	$ 17,122,474	$ 27,855,931
Nonexpenditure transfers, net, actual	183,595	170,543
Temporarily not available pursuant to public law	0	(10,000)
Permanently not available	(7,967)	(4,056)
Total Budgetary Resources	$ 34,856,296	$ 40,567,987
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 12,924,634	$ 12,428,730
Reimbursable	10,862,510	10,621,196
Subtotal	$ 23,787,144	$ 23,049,926
Unobligated balance:		
Apportioned	$ 10,401,348	$ 16,440,183
Exempt from apportionment	667,784	1,077,729
Subtotal	$ 11,069,132	$ 17,517,912
Unobligated balance not available	20	149
Total status of budgetary resources	$ 34,856,296	$ 40,567,987
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 11,126,133	$ 9,392,894
Less: Uncollected customer payments		
from federal sources, brought forward, October 1	(3,253,339)	(5,418,018)
Total unpaid obligated balance	$ 7,872,794	$ 3,974,876
Obligations incurred net	23,787,144	23,049,926
Less: Gross outlays	(21,738,539)	(20,453,837)
Less: Recoveries of prior year unpaid obligations, actual	(40,133)	(862,852)
Change in uncollected customer payments from federal sources	187,934	2,164,678
Obligated balance, net, end of period		
Unpaid obligations	13,134,605	11,126,133
Less: Uncollected customer payments from federal sources	(3,065,405)	(3,253,339)
Total, unpaid obligated balance, net, end of period	$ 10,069,200	$ 7,872,794
Net Outlays:		
Gross outlays	$ 21,738,539	$ 20,453,837
Less: Offsetting collections	(11,115,071)	(13,007,784)
Less: Distributed offsetting receipts	(708,601)	(583,187)
Net Outlays	$ 9,914,867	$ 6,862,866

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

Note 1. Significant Accounting Policies

1.A. Mission of the Reporting Entity

The primary mission of the U.S. Army Corps of Engineers (USACE) Civil Works Program 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. The USACE's primary role in support of this plan is to provide emergency support in areas of public works and engineering. The 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.B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position and results of operations of the USACE, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994. The financial statements have been prepared from the books and records of the USACE in accordance with U.S generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirement*. The accompanying financial statements account for all Civil Works resources for which the USACE is responsible.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

The USACE has presented comparative financial statements for the Consolidated Balance Sheet, Consolidated Statements of Net Cost and Changes in Net Position, and Combined Statement of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

The USACE's financial management system meets all of the requirements for full accrual accounting. The USACE transactions are recorded on an accrual accounting basis as required by GAAP.

1.C. Fund Types

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.

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

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.

Contributed funds are received from the public for construction of assets under local cost sharing agreements.

The USACE trust, contributed, and special funds are 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. The USACE is required to separately account for and report on the receipt, use, and retention of revenues and other financing sources for earmarked funds.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not USACE funds, and as such, are not available for the USACE's operations. The USACE is acting as an agent or a custodian for funds awaiting distribution.

Clearing accounts are used to record the amount of unprocessed intragovernmental payments and collections transmitted to the USACE from other federal agencies.

Receipt accounts are used to record amounts such as interest, land lease proceeds, fines and penalties that are deposited in the U.S. Treasury.

A summary of USACE accounts follows:

General Funds	
96X3112	Flood Control, Mississippi River and Tributaries
96 3113	Mississippi River and Tributaries - Recovery Act
96X3121	Investigations
96 3121	Investigations (fiscal year)
96X3122	Construction
96 3122	Construction (fiscal year)
96X3123	Operation and Maintenance, General
96 3123	Operation and Maintenance, General
96X3124	General Expenses
96 3124	General Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
96 3125	Flood Control and Coastal Emergencies (fiscal year)
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
96X3132	Office of Assistant Secretary of the Army, Civil Works
96 3132	Office of Assistant Secretary of the Army, Civil Works (fiscal year)
96 3133	Investigations - Recovery Act
96 3134	Construction – Recovery Act
96 3135	Operation and Maintenance – Recovery Act
96 3136	Regulatory Program – Recovery Act
96 3137	Formerly Utilized Sites Remedial Action Program – Recovery Act
96 3138	General Expenses – Recovery Act
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
96X8861	Inland Waterways Trust Fund
96X8863	Harbor Maintenance Trust Fund

Trust Funds (Contributed)

96X8862	Rivers and Harbors Contributed and Advance Funds

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

96R0891	Miscellaneous Fees for Regulatory and Judicial Services, Not Otherwise Classified
96R1060	Forfeitures of Unclaimed Money and Property
96R1099	Fines, Penalties, and Forfeitures, Not Otherwise Classified
96R1299	Gifts to the United States, Not Otherwise Classified
96R1435	General Fund Proprietary Interest, Not Otherwise Classified
96R3220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96R5005	Land and Water Conservation Fund
96R5007	Special Recreation Use Fees
96R5066	Hydraulic Mining in California
96R5090	Receipts from Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes
96R5125	Licenses under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams, etc., (50%)
96R5493	User Fees, Fund for Non-Federal Use of Disposal Facilities
96R8862	Contributions and Advances, Rivers and Harbors

1.D. Financing Sources

The USACE receives federal funding through the annual Energy and Water Development Appropriations Act. 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.

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

The USACE received borrowing authority from the U.S. Treasury to finance capital improvements to the Washington Aqueduct.

The USACE receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services. The 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 the USACE's standard policy for goods or services provided as required by OMB Circular No. A-25, *User Charges*.

The USACE records two types of revenue: exchange and nonexchange. Exchange revenue is the inflow of resources that the 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 when the USACE provides services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables. For nonfederal entities, an advance payment is required and the USACE records advances from others. The USACE reduces the advances and recognizes revenue as services are provided.

Cost-sharing revenue arises from agreements under which the 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 and the USACE records deferred credits. The USACE reduces the deferred credits and recognizes revenue at the time of the withdrawal for costs incurred.

Nonexchange revenue represents resources received by the USACE when a good or service is not provided in exchange for that revenue. Nonexchange revenue generally consists of interest earned on investments from excise taxes and port fees, penalties, and donations.

1.E. Recognition of Expenses

The USACE recognizes expenses in the period incurred or consumed. The USACE's expenditures for capital assets are recognized as operating expenses as the assets are depreciated or amortized.

1.F. Accounting for Intragovernmental Activities

The USACE eliminates transactions within the USACE Civil Works Program in these consolidated financial statements. Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself.

Generally, financing for the construction of the 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 because the U.S. Treasury does not allocate such costs to the USACE.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards," the USACE recognizes imputed financing and cost for unreimbursed goods and services provided by others. These costs include unreimbursed rent, interest during construction, Judgment Fund payments on behalf of the USACE, and employee benefits.

1.G. Entity and NonEntity Assets

The assets are categorized as entity or nonentity. Entity assets consist of resources that the USACE has the authority to use or when management is legally obligated to use funds to meet entity obligations. Nonentity assets consist of resources for which the USACE maintains stewardship accountability and responsibility to report but are not available for the USACE operations.

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

The 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 the USACE's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on checks issued, 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 the USACE's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled on a monthly basis.

1.I. Investments

The 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. The 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 the Public Debt, on behalf of the USACE, invests in nonmarketable securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

The USACE's net investments are held by the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds.

1.J. Accounts Receivable

Accounts receivable includes three categories: accounts, claims, and refunds receivable from other federal entities or from the public. The 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 USACE regards its intragovernmental accounts receivable balance as fully collectible.

Accounts receivable also include amounts stemming from long-term water storage agreements based on the cost of construction to be recouped by the USACE from the municipality. The USACE performs an analysis of the collectability of the receivables periodically and recognizes an allowance for estimated uncollectible amounts from the municipality.

1.K. Operating Materials and Supplies

The USACE operating materials and supplies are stated at historical cost under the moving average cost method and are adjusted for the results of physical inventories. Operating materials and supplies are expensed when consumed.

1.L. General Property, Plant and Equipment

With the exception of buildings and structures related to hydropower projects, which are capitalized regardless of cost, the USACE GPP&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 $25,000.

When it is in the best interest of the government, the USACE provides government property to contractors to complete contract work. The 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 Department of Defense capitalization threshold, it is reported on the USACE's Balance Sheet.

The USACE uses estimates to support the historical costs of its real property assets, including the administrative costs of land, acquired prior to fiscal year (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 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 and accumulated costs are transferred from CIP to the relevant asset category when an asset is completed.

1.M. Leases

Lease payments for the rental of equipment and operating facilities are classified as operating leases. 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.N. Other Assets

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

1.O. Accounts Payable

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

1.P. Debt

The USACE debt consists of the amount owed to the U.S. Treasury for capital improvements to the Washington Aqueduct. The USACE entered into agreement with Arlington County and the City of Falls Church, Virginia, to provide funding to the USACE to repay the debt.

1.Q. Due to Treasury – General Fund

The USACE reported an offsetting custodial liability for amounts Due to Treasury – General Fund for interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury.

1.R. Federal Employee and Veterans' Benefits

The Federal Employees and Veterans' Benefits liability consists of the actuarial liability for Federal Employees Compensation Act benefits. The Department of the Army (DA) actuarial liability for workers' compensation benefits is developed by the Department of Labor 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 OMB's economic assumptions for 10-year U.S. Treasury notes and bonds.

1.S. Other Liabilities

The USACE reports a liability for funded payroll and benefits, to include 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.

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. The USACE recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. The 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 collectability of receivables, pending or threatened litigation, and possible claims and assessments. The 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.

1.T. Environmental and Disposal Liabilities

Environmental and disposal liabilities include future costs to address government-related environmental contamination at USACE sites and other sites at which the USACE is directed by the Congress to perform remediation work. The USACE recognizes a liability for each site as the need for cleanup work becomes probable and costs, based on site-specific engineering estimates, become measurable. Costs to address environmental contamination not caused by the government are recorded as incurred. Cleanup remedies are selected from feasible alternatives using the decision-making process prescribed by the Comprehensive Environmental Response, Compensation, and Liability Act.

1.U. Liabilities Not Covered by Budgetary Resources

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

1.V. Net Position

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

Unexpended Appropriations include the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended Appropriations also include 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.W. Allocation Transfers

The USACE is a party to allocation transfers with other federal agencies both as a transferring (parent) entity and 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 affecting the USACE include certain U.S. Treasury-Managed Trust Funds for which the USACE is the parent in the allocation transfer, but per OMB guidance, the child agencies will report budgetary and proprietary activity relative to these allocation transfers in their financial statements. The U.S. Treasury-Managed Trust Funds, which are included in the USACE financial statements, are South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds. The U.S. Treasury, Bureau of the Public Debt, on behalf of the USACE, makes allocation transfers from the Harbor Maintenance Trust Fund to the Saint Lawrence Seaway Development Corporation and the U.S. Customs and Border Protection agency.

In addition to these funds, the USACE received allocation transfers, as the child, from Departments of Agriculture, Interior, Transportation, and Energy and the Appalachian Regional Commission.

1.X. Reclassifications

Certain reclassifications have been made to the FY 2009 Statement of Changes in Net Position between Earmarked and Other Funds to conform to the FY 2010 presentation.

Note 2. Nonentity Assets

As of September 30		2010		2009
(Amounts in thousands)				
Nonentity Assets				
Intragovernmental Assets				
Fund Balance with Treasury	$	20,783	$	10,630
Accounts Receivable		0		1
Total Intragovernmental Assets	$	20,783	$	10,631
Cash and Other Monetary Assets	$	972	$	1,356
Accounts Receivable		2,484,625		2,396,350
Total Nonfederal Assets	$	2,485,597	$	2,397,706
Total Nonentity Assets	$	2,506,380	$	2,408,337
Total Entity Assets		55,600,156		57,883,196
Total Assets	$	58,106,536	$	60,291,533

Other Information

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.

Nonfederal Accounts Receivable represent all receivables from nonfederal sources when the USACE does not have specific statutory authority to retain the receipts. These receivables consist of multiple types of long-term agreements such as easements, sale of hydro-electric power, recreational development, and long-term water storage agreements.

Note 1.J and Note 5, *Accounts Receivable*, and Note 13, *Due to Treasury – General Fund and Other Liabilities*, provide additional information related to long-term water storage agreements.

Note 3. Fund Balance with Treasury

As of September 30		2010		2009
(Amounts in thousands)				
Fund Balances				
General Funds	$	18,099,959	$	22,349,179
Revolving Funds		1,541,288		1,552,006
Trust Funds		98,615		74,694
Special Funds		70,502		9,179
Contributed Funds		954,923		850,191
Other Fund Types		74,522		104,375
Total Fund Balances	$	20,839,809	$	24,939,624

Status of Fund Balance with Treasury

As of September 30		2010		2009
(Amounts in thousands)				
Unobligated Balance				
Available	$	11,069,132	$	17,517,912
Unavailable		20		149
Obligated Balance not yet Disbursed		13,134,605		11,126,133
Nonbudgetary FBWT		81,229		10,445
Non FBWT Budgetary Accounts		(3,445,177)		(3,715,015)
Totals	$	20,839,809	$	24,939,624

Other Information

The status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds. 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.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit and clearing accounts.

Non FBWT Budgetary Accounts reduced the status of FBWT and include borrowing authority, investment accounts, Accounts Receivables and unfilled orders without advance from customers.

Note 4. Investments and Related Interest

As of September 30	2010								
(Amounts in thousands)		Cost	Amortization Method		Amortized (Premium) / Discount		Investments, Net		Market Value Disclosure
Intragovernmental Securities									
Nonmarketable, Market-Based	$	5,716,802	Effective interest	$	(11,197)	$	5,705,605	$	5,987,352
Accrued Interest		35,708	-		0		35,708		35,708
Total Intragovernmental Securities	$	5,752,510		$	(11,197)	$	5,741,313	$	6,023,060

As of September 30	2009								
(Amounts in thousands)		Cost	Amortization Method		Amortized (Premium) / Discount		Investments, Net		Market Value Disclosure
Intragovernmental Securities									
Nonmarketable, Market-Based	$	5,239,501	Effective interest	$	(41,650)	$	5,197,851	$	5,363,161
Accrued Interest		30,195	-		0		30,195		30,195
Total Intragovernmental Securities	$	5,269,696		$	(41,650)	$	5,228,046	$	5,393,356

Other Information

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to the USACE as evidence of its receipts. Treasury securities are assets to the USACE and liabilities to the U.S. Treasury. Because the USACE and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Governmentwide financial statements.

Treasury securities provide the USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the USACE requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The breakdown of total net investments among the trust funds for FY 2010 is as follows: $5.6 billion in the Harbor Maintenance Trust Fund, $53.0 million in the Inland Waterways Trust Fund, and $131.0 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

The breakdown of total net investments among the trust funds for FY 2009 is as follows: $5.0 billion in the Harbor Maintenance Trust Fund, $60.0 million in the Inland Waterways Trust Fund, and $131.6 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, 2010, and September 30, 2009, respectively.

Note 5. Accounts Receivable, Net

As of September 30	2010					
(Amounts in thousands)		Gross Amount Due		Allowance For Estimated Uncollectibles		Accounts Receivable, Net
Intragovernmental Receivables	$	498,100		N/A	$	498,100
Nonfederal Receivables (From the Public)		2,505,004	$	(627)		2,504,377
Total Accounts Receivable	$	3,003,104	$	(627)	$	3,002,477

As of September 30	2009					
(Amounts in thousands)		Gross Amount Due		Allowance For Estimated Uncollectibles		Accounts Receivable, Net
Intragovernmental Receivables	$	594,679		N/A	$	594,679
Nonfederal Receivables (From the Public)		2,419,528	$	(3,974)		2,415,554
Total Accounts Receivable	$	3,014,207	$	(3,974)	$	3,010,233

Other Information

As of September 30, 2010, and September 30, 2009, Accounts Receivables Intragovernmental include $412.7 million and $467.1 million, respectively, for amounts from the Coastal Wetlands Restoration Trust Fund for projects in the New Orleans District.

As of September 30, 2010, and September 30, 2009, Accounts Receivable from the Public, net of allowances, stemming from long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements include $2.3 billion and $2.2 billion, respectively. These agreements have maturity dates ranging from 2 to 50 years and interest rates based on the U.S. Treasury effective rate at the time of the agreement.

Note 6. Cash and Monetary Assets

As of September 30	2010	2009
(Amounts in thousands)		
Cash	$ 14	$ 47
Foreign Currency	958	1,309
Total Cash and Foreign Currency	$ 972	$ 1,356

Other Information

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

The 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. The USACE does not separately identify currency fluctuations.

The 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 for 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. Operating Materials and Supplies

As of September 30	2010	2009
(Amounts in thousands)		
Operating Materials & Supplies:		
Items Held for Use	$ 156,518	$ 128,169
Totals	$ 156,518	$ 128,169

Other Information

Operating materials and supplies (OM&S) are comprised of personal property 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 USACE applies moving average cost flow assumptions to arrive at the historical cost of the ending OM&S and cost of goods consumed.

As of September 30, 2010, there were no differences between the carrying amount and the net realizable value of OM&S. As of September 30, 2009, there were differences between the carrying amount and the net realizable value of OM&S of $14.9 thousand, due to excess, obsolete, or unserviceable items. There are no restrictions on the use of OM&S.

The USACE maintains OM&S stocks because many unique materials and supplies are not readily available in the market and will eventually be needed.

As of September 30, 2010 and 2009, the USACE did not have inventories, stockpile materials, seized or forfeited properties, or goods held under price support and stabilization programs, as defined in Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property."

Note 8. General,Property, Plant & Equipment, Net

As of September 30	2010				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 8,978,995	N/A	$ 8,978,995
Buildings, Structures, and Facilities	S/L	20 - 100	29,647,022	$ (14,891,262)	14,755,760
Leasehold Improvements	S/L	Lease term	43,789	(39,899)	3,890
Software	S/L	2 - 10	90,072	(80,822)	9,250
General Equipment	S/L	5 - 50	1,623,917	(818,131)	805,786
Construction-in-Progress	N/A	N/A	3,811,484	N/A	3,811,484
Total General PP&E			$ 44,195,279	$ (15,830,114)	$ 28,365,165

Legend for Depreciation Methods:

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

As of September 30	2009				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 8,958,792	N/A	$ 8,958,792
Buildings, Structures, and Facilities	S/L	20 - 100	28,534,507	$ (14,443,620)	14,090,887
Leasehold Improvements	S/L	Lease term	41,587	(35,751)	5,836
Software	S/L	2 - 10	94,574	(84,408)	10,166
General Equipment	S/L	5 - 50	1,524,213	(771,677)	752,536
Construction-in-Progress	N/A	N/A	3,165,519	N/A	3,165,519
Other			8	(2)	6
Total General PP&E			$ 42,319,200	$ (15,335,458)	$ 26,983,742

Other Information

The USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24 percent 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 U.S. The service life for the USACE's hydropower project related assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up $9.4 billion of the book value of the USACE's PP&E in FY 2010 and $9.8 billion in FY 2009.

As of September 30, 2010, the USACE recognized a loss of $21.4 million on general property, plant, and equipment (PP&E) that had been removed from service based on SFFAS No. 6, "Accounting for Property, Plant, and Equipment." The loss recognized as of September 30, 2009, was $44.5 million.

As of September 30, 2010, and 2009, approximately $26.3 billion of the 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*. The net book value is $11.4 billion at September 30, 2010, and $11.7 billion at September 30, 2009.

There are no restrictions on the use or convertibility of general PP&E.

Note 9. Stewardship Property, Plant and Equipment

Information Related to Stewardship Property, Plant and Equipment

Stewardship property, plant and equipment (PP&E) are assets with properties resembling those of the general PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets. Heritage assets are items of historical, natural, cultural, educational, or artistic significance, (e.g., aesthetic) or items with significant architectural characteristics. Heritage assets are expected to be preserved indefinitely.

Relevance to the USACE Mission

The USACE, as a steward of public land, has the responsibility for ensuring that properties of a historical or traditional nature located on USACE lands are preserved and managed appropriately. The USACE implements cultural resource management in a positive manner that fulfills the requirements of all laws, regulations, and policies, for all project undertakings in an environmentally and economically sound manner, and in the interest of the American public.

Stewardship Policy

The USACE has the responsibility to manage cultural resources on the USACE-owned lands. Engineering Regulations 1105-2-100 and 1130-2-540 provide the basic guidance for the USACE Civil Works Program. The term "cultural resources" refers to any building, site, structure, object, or other material significant in history, architecture, archeology, or culture. Historic properties are sites that are eligible for inclusion in the National Register of Historic Places. The National Register is an inventory of historic properties important in our nation's history, culture, architecture, archeology, and engineering. The National Register office in the National Park Service maintains the inventory. Properties are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. In addition to the engineering regulations, the USACE also adheres to Army Regulations 200-4 and 870-20 related to managing cultural resources and heritage assets.

Heritage Asset Categories

1. Buildings and Structures. Buildings and structures are those listed on, or eligible for listing on, the National Register of Historic Places. Buildings and structures include a range of historic resources from a covered bridge in Sacramento District to early farming structures in Savannah District. They also include some nontraditional structures, such as a snag boat that operated on the Mississippi River. There are 95 buildings and structures listed on the National Register and 196 determined eligible for listing. There are a total of 291 heritage assets in this category; this reflects a reduction of 62 buildings and structures from the prior fiscal yearend report.

2. Archeological Sites. Cemeteries and archeological sites are archeological properties listed on or eligible for listing in the National Register of Historic Places. The current National Register inventory for the USACE included 557 archeological properties determined to be eligible for listing and 119 archeological properties listed. This total of 676 archeological sites reflects an increase of 89 from the prior fiscal yearend report.

3. Museum Collection Items (Objects). Museum collection items are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. These items are divided into two subcategories: fine art and objects. These include museum collection items that have historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Heritage Assets as of September 30, 2010	
Buildings and Structures	291
Archeological Sites	676
Museum Collection Items (objects)	195

Acquisition and Withdrawal of Heritage Assets

The USACE acquired a net of five heritage assets during FY 2010 from the "eligible for" listing. The USACE reported this increase through its normal process of established regulations for listing of historic properties in the National Register of Historic Places. The USACE provides this information to the keeper of the National Register of Historic Places at the Department of the Interior, National Park Service. Heritage assets are not material to the mission of the USACE.

The USACE acquired one archeological site during FY 2009. The USACE discovered the site on the USACE land during construction and was determined to preserve the site. The USACE provided this information to the keeper of the National Register of Historic Places at the Department of the Interior, National Park Service.

Note 10. Liabilities Not Covered by Budgetary Resources

As of September 30	2010	2009
(Amounts in thousands)		
Intragovernmental Liabilities		
Debt	$ 5,634	$ 8,074
Due to Treasury - General Fund	2,484,625	2,396,351
Other	227,300	222,199
Total Intragovernmental Liabilities	$ 2,717,559	$ 2,626,624
Federal Employee and Veterans' Benefits	243,460	233,867
Environmental and Disposal Liabilities	1,038,122	1,034,792
Contingent Liabilities	40,489	45,920
Total Liabilities Not Covered by Budgetary Resources	$ 4,039,630	$ 3,941,203
Total Liabilities Covered by Budgetary Resources	3,723,356	3,329,620
Total Liabilities	$ 7,762,986	$ 7,270,823

Other Information

Intragovernmental Liabilities – Debt is comprised of the amount owed by the 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 the USACE to repay the debt. Refer to Note 11, *Debt*, for additional details and disclosures.

Intragovernmental Liabilities – Due to Treasury - General Fund includes an 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, Louisiana coastal restoration, flood control and hurricane protection agreements. Budgetary resources are not required for these types of 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 the CDA liability. The FECA liability will not be funded until FY 2011.

Federal Employee and Veterans' Benefits include actuarial liability for 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 and Disposal Liabilities represent estimated cleanup costs for environmental liabilities, which will be funded in future appropriations. Refer to Note 12, *Environmental and Disposal Liabilities*, and Note 13, *Due to Treasury - General Fund and Other Liabilities*, for additional details and disclosures.

Contingent liabilities represent probable losses related to lawsuits filed against the USACE. Contingent liabilities may be funded in future appropriations. Refer to Note 14, *Contingencies*, for additional details and disclosures.

Note 11. Debt

As of September 30	2010		
(Amounts in thousands)	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 8,074	$ (2,440)	$ 5,634

As of September 30	2009		
(Amounts in thousands)	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 12,130	$ (4,056)	$ 8,074

Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. The 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 Arlington County and the City of Falls Church, Virginia, to provide funding to the USACE to repay the debt. The USACE recognized a receivable for $5.6 million in principal and current interest due from Arlington County and the City of Falls Church, Virginia, as of September 30, 2010. 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 $5.6 million is outstanding at September 30, 2010, and $8.1 million is outstanding at September 30, 2009. There were no withdrawals from the U.S. Treasury for FY 2010 or FY 2009. Total principal repayments in FY 2010 were $2.4 million and total principal repayments in FY 2009 were $4.1 million.

Note 12. Environmental and Disposal Liabilities

As of September 30	2010	2009
(Amounts in thousands)		
Formerly Utilized Sites Remedial Action Program (FUSRAP)	$ 1,026,985	$ 1,020,737
Other	11,137	14,055
Total Environmental and Disposal Liabilities	$ 1,038,122	$ 1,034,792

Assumptions and Uncertainties

Estimating environmental liabilities requires making assumptions about future activities and is inherently uncertain. The cleanup estimates reflect local decisions and expectations as to the extent of cleanup and site reuse and include assessments of the effort required to complete the project based on data collected during the remedial investigation and feasibility study phases of each project. For most projects, the volume of contaminated material to be removed and the cost to dispose of such material, including transportation, are the elements of the estimates with the greatest uncertainty and potential for significant increase in project costs. The estimates include contingency provisions intended to account for the uncertainties associated with estimating these elements and other factors.

The initial estimate of cleanup costs for each site is necessarily based on incomplete data. Estimates are refined as alternative approaches and evaluated. A preferred alternative is approved in a record of decision.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels, unplanned delays in project completion, or future changes in costs may cause actual costs to be higher than the recorded liability.

The USACE considers various key factors in determining whether future outflows of resources can be reasonably estimated, including:

- Completion of remedial investigation/feasibility study or other study
- Experience with similar site and/or conditions
- Availability of remediation technology

The environmental liabilities of $1 billion do not include sites where the USACE has identified likely contamination resulting from past Tungsten Queen Mine related activities, but for which a reasonable estimate cannot be made.

Formerly Utilized Sites Remedial Action Program

The USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), established to respond to radiological contamination from early U.S. Atomic Energy and Weapons Programs. For each FUSRAP site, the USACE has received congressional authorization to ascertain the extent of environmental contamination; select a remedy with input from state and federal authorities and local stakeholders; perform the cleanup work; and dispose of wastes. After cleanup work is completed at each site, the USACE transfers responsibility to the U.S. Department of Energy for long-term surveillance and monitoring.

Changes in the FUSRAP liability during the fiscal years ended September 30, 2010, and 2009 resulted from inflation adjustments to reflect changes in costs for the current year, cleanup activities performed, and adjustments to estimates of soil volumes.

Other Environmental Liabilities

Other environmental liabilities relate to environmental contamination at current or former the USACE project sites.

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

As of September 30 *(Amounts in thousands)*	2010 Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury-General Fund	$ 191,960	$ 2,292,665	$ 2,484,625
Advances from Others	772,277	0	772,277
Deposit Funds and Suspense Account Liabilities	(130)	0	(130)
Disbursing Officer Cash	972	0	972
Judgment Fund Liabilities	176,981	0	176,981
FECA Reimbursement to the Department of Labor	22,026	28,293	50,319
Employer Contribution and Payroll Taxes Payable	25,961	0	25,961
Total Intragovernmental	$ 1,190,047	$ 2,320,958	$ 3,511,005
Accrued Funded Payroll and Benefits	$ 530,682	$ 0	$ 530,682
Advances from Others	203,193	0	203,193
Deferred Credits	950,285	0	950,285
Deposit Funds and Suspense Accounts	20,783	0	20,783
Contract Holdbacks	65,031	0	65,031
Contingent Liabilities	40,489	0	40,489
Total Other Liabilities	$ 3,000,510	$ 2,320,958	$ 5,321,468

As of September 30 *(Amounts in thousands)*	2009 Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury –General Fund	$ 136,215	$ 2,260,136	$ 2,396,351
Advances from Others	$ 759,735	$ 0	$ 759,735
Deposit Funds and Suspense Account Liabilities	(137)	0	(137)
Disbursing Officer Cash	1,356	0	1,356
Judgment Fund Liabilities	171,911	0	171,911
FECA Reimbursement to the Department of Labor	21,144	29,145	50,289
Employer Contribution and Payroll Taxes Payable	21,754	0.00	21,754
Total Intragovernmental	$ 1,111,978	$ 2,289,281	$ 3,401,259
Accrued Funded Payroll and Benefits	$ 501,931	$ 0	$ 501,931
Advances from Others	158,429	0	158,429
Deferred Credits	769,633	0	769,633
Deposit Funds and Suspense Accounts	10,630	0	10,630
Contract Holdbacks	58,874	0	58,874
Contingent Liabilities	45,920	0	45,920
Total Other Liabilities	$ 2,657,395	$ 2,289,281	$ 4,946,676

Other Information

Due to Treasury – General Fund. This amount is comprised of the custodial liability held with the U.S. Treasury for repayment of interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury. The USACE records a custodial liability for payables from water storage and hydraulic mining contracts and for flood control, coastal restoration, and hurricane protection measures with the Coastal Protection and Restoration Authority of Louisiana.

Judgment Fund Liabilities – The USACE has recognized an unfunded liability arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with a provision of the CDA requiring agencies to reimburse the Judgment Fund for payments to claimants in cases involving federal contract disputes. The USACE cannot fund the CDA claims since it is funded for projects and does not receive funding for this type of claim. The USACE sought supplemental appropriations for payment of CDA claims in FY 2000, FY 2006, and FY 2007, but these requests were not approved. The FY 2010 budget does not provide funding for payment of the CDA claims.

Note 14. Contingencies

Legal Contingencies

The USACE is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The USACE has accrued contingent liabilities for legal actions when the USACE's Office of the Chief Counsel 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 payable 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*.

The U.S. Army Claims Service supervises processing, investigates, adjudicates, and negotiates the settlement of noncontractual administrative claims on behalf of and against the Department of the Army (including the USACE); however, because of their uniqueness, the hurricane Katrina-related administrative claims are processed by the U.S. Department of Justice (DOJ). 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 the Judgment Fund for payment. With the exception of Contract Disputes Act settlements disclosed in Note 13, amounts paid by the Judgment Fund are recorded as expenses and imputed financing sources.

Probable Likelihood of an Adverse Outcome

The USACE is subject to potential liabilities when adverse outcomes are probable. Claims for these potential liabilities are approximately $40.5 million and $45.9 million as of September 30, 2010, and 2009, respectively. The contingent liabilities were included in Note 13.

Reasonably Possible Likelihood of an Adverse Outcome

The USACE is subject to potential liabilities when adverse outcomes are reasonably possible. These claims are approximately $10.4 billion and $5.6 billion as of September 30, 2010, and 2009, respectively.

Hurricane Katrina-Related Claims and Litigation

Various parties filed administrative claims and lawsuits against the USACE as a result of hurricane Katrina in 2005. Most of the Katrina-related litigation is consolidated before a single federal judge sitting 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 Limitation, St. Rita Nursing Home, and Barge. The MRGO category, the Barge category, and Robinson, involving similar geographic areas, are most relevant to the USACE at this point.

Concerning the Levee Master consolidated class action complaint, the Court granted the United States' motion to dismiss. On October 14, 2010, the Court certified this decision as a final judgment. An appeal from this final judgment must be filed with the U.S. Fifth Circuit Court of Appeals by December 13, 2010.

The government filed a motion to dismiss the MRGO case with regard to the application of the discretionary function exception to the activities performed at the East Bank Industrial Area (EBIA) on September 15, 2009, with an oral argument set for October 28, 2009. The Court has stayed the trial of the MRGO case pending resolution of the government's motion. By Order entered February 2, 2010, the Court granted the motion dismissing EBIA allegations without prejudice, allowing for the refiling of those claims by those class representatives who had prematurely filed suit. Plaintiffs have subsequently refiled a new suit with the identical claims. The Court further allowed the consolidation of a suit by the Entergy power companies that raises these same MRGO and EBIA allegations and also specifically excluded Entergy from the MRGO stay imposed on other parties and litigation. The U.S. finally filed its motion to dismiss EBIA allegations on August 3, 2010, and oral argument was set for October 13, 2010.

In the Ingram Barge case, by Order entered June 22, 2009, the Court severed and stayed the third party claims of Lafarge against the U.S. This stay is in effect until 90 days after a decision is rendered by the Fifth Circuit in Robinson or until 90 days after a final resolution of Robinson by the Supreme Court in the event that a writ of certiorari is sought, or until the passage of 18 months from the Order, whichever date is sooner. This order grants the United States' motion brought as a result of the Court's stay issued on May 4, 2009, in the MRGO category. As a result, the U.S. did not participate in the trial in this matter that began on June 21, 2010, and was set to conclude on July 9, 2010.

The DOJ, which is responsible for litigating Katrina-related matters in federal court on behalf of the government, 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 government is unable to estimate the amount of any loss that may result; however, the USACE has not recorded a provision for Katrina-related matters in the consolidated financial statements.

Other Litigation

In addition to the matters described above, the USACE is subject to other potential liabilities for which the exact amount or range of loss is unknown.

Commitments and 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 which may require financial obligations, such as fixed price contracts with escalations, price redetermination, or incentive clauses, which may require future financial obligations.

Note 15. General Disclosures Related to the Statement of Net Cost

As of September 30	2010	2009
(Amounts in thousands)		
Intragovernmental Costs	$ 1,579,695	$ 1,284,049
Public Costs	11,506,131	9,876,751
Total Costs	$ 13,085,826	$ 11,160,800
Intragovernmental Earned Revenue	$ (2,375,350)	$ (3,047,876)
Public Earned Revenue	(639,244)	(551,194)
Total Earned Revenue	$ (3,014,594)	$ (3,599,070)
Net Cost of Operations	$ 10,071,232	$ 7,561,730

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. The SNC is presented under the Civil Works Program for the USACE.

The 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 $1.4 billion during FY 2010 and $1.4 billion during FY 2009 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.

Note 17. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2010	2009
(Amounts in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 11,283,832	$ 9,481,104

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 come from sources outside the federal government.

For FY 2010, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A includes $12.9 billion for direct obligations, $10.9 billion for reimbursable obligations, and $39.0 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 Statement of Budgetary Resources (SBR) include undelivered orders-unpaid for both direct and reimbursable funds.

For FY 2009, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A includes $12.4 billion for direct obligations, $10.6 billion for reimbursable obligations, and $58.9 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.

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 SF 133, Report on Budget Execution (SF 133) for FY 2010 and FY 2009. Treasury account symbol 96X6094 (Advances from the District of Columbia) is not included in the SF 133. 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 2010 has not yet been published. The FY 2012 President's Budget will include actual figures for FY 2010 reporting. The FY 2012 President's Budget can be found at: http://www.whitehouse.gov/omb early in FY 2011. The following chart is a reconciliation of the FY 2011 President's Budget actual figures for FY 2009 to FY 2009 SBR as required by the Office of Management and Budget Circular Circular No. A-136.

Department of Defense
U.S. Army Corps of Engineers - Civil Works
Reconciliation of 2009 Yearend SBR to 2011 President's Budget

(Amounts in millions)

	Budgetary Resources Line 23.90	Obligations Incurred Line 23.95	Offsetting Receipts Line 02.99	Net Outlays Line 90.00	Explanation for reconciling differences
SBR	$40,568	$23,050	$583	$6,863	
Reconciling Difference	(70)	(59)		(23)	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				583	The SBR reduces net outlays by the amount of distributed offsetting receipts. The President's Budget Line Item 90.00 does not.
Reconciling Difference			(64)		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			1,334		The President's Budget line 02.99 includes total receipts and collections for the trust funds. The SBR includes only USACE's distributed offsetting receipts to South Dakota Terrestrial Wildlife per Treasury Financial Manual, Federal Account Symbols and Titles (FAST Book). Other trust fund receipts are included in the budgetary resources, line 23.90.
Reconciling Difference			7		Per the FAST Book, 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	(173)				2009 Audit Adjustments
Totals	$40,325	$22,991	$1,860	$7,423	
President's Budget	$40,325	$22,991	$1,859	$7,424	
Difference	0	0	(1)	1	Due to rounding.

Note 18. Reconciliation of Net Cost of Operations (Proprietary) to Budget

As of September 30		2010		2009
(Amounts in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	23,787,144	$	23,049,926
Less: Spending authority from offsetting collections and recoveries		(10,967,269)		(11,705,957)
Obligations net of offsetting collections and recoveries	$	12,819,875	$	11,343,969
Less: Offsetting receipts		(708,601)		(583,187)
Net obligations	$	12,111,274	$	10,760,782
Other Resources:				
Donations and forfeitures of property		708		2,825
Transfers in/out without reimbursement		595,618		109,331
Imputed financing from costs absorbed by others		335,531		275,785
Net other resources used to finance activities	$	931,857	$	387,941
Total resources used to finance activities	$	13,043,131	$	11,148,723
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	$	(1,802,728)	$	(1,745,577)
Unfilled Customer Orders		(130,179)		(1,659,428)
Resources that fund expenses recognized in prior periods		(773)		(23,819)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		178,791		131,123
Resources that finance the acquisition of assets		(59,128)		(15,501)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget		0		(10,000)
Other		(596,327)		(112,155)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	(2,410,344)	$	(3,435,357)
Total Resources Used to Finance the Net Cost of Operations	$	10,632,787	$	7,713,366

As of September 30		2010		2009
(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	$	3,330	$	52,680
Increase in exchange revenue receivable from the public		180,129		26,794
Other		10,037		2,635
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$	193,496	$	82,109
Components not Requiring or Generating Resources:				
Depreciation and amortization	$	436,140	$	736,832
Revaluation of assets or liabilities		57,278		38,311
Other				
Cost of Goods Sold		371		698
Operating Material and Supplies Used		69		268
Cost Capitalization Offset		(1,328,535)		(874,336)
Other		79,626		(135,518)
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	(755,051)	$	(233,745)
Total components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$	(561,555)	$	(151,636)
Net Cost of Operations	$	10,071,232	$	7,561,730

Other Information

The following note schedule lines are presented as combined instead of consolidated due to intraentity 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 2010 and FY 2009 amounts include the net amount of assets transferred between the USACE and other government agencies.

Composition of Components Requiring or Generating Resources in Future Period, Other - The FY 2010 amounts include the current year increase to unfunded Judgment Fund Contract Disputes Act (CDA) claims, Federal Employees' Compensation (FECA) liability and the FECA actuarial liability. The FY 2009 amount includes current year Judgment Fund CDA claims and current year unfunded expense for the FECA liability.

Composition of Components not Requiring or Generating Resources, Other – The FY 2010 and FY 2009 amounts include bad debt expense and 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 2010 and FY 2009, costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

Note 19. Earmarked Funds

	2010				
BALANCE SHEET As of September 30 *(Amounts in thousands)*	Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 70,502	$ 954,923	$ 98,615	$ 0	$ 1,124,040
Investments	0	0	5,741,313		5,741,313
Accounts and Interest Receivable	4,970	566	429,023	(20,300)	414,259
Other Assets	1,856	37,952	716,070		755,878
Total Assets	$ 77,328	$ 993,441	$ 6,985,021	$ (20,300)	$ 8,035,490
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities					
Other Liabilities	$ 1,255	$ 980,797	$ 27,225	$ (20,788)	$ 988,489
Total Liabilities	$ 1,255	$ 980,797	$ 27,225	$ (20,788)	$ 988,489
Cumulative Results of Operations	76,073	12,644	6,957,796	2,145,754	9,192,267
Total Liabilities and Net Position	$ 77,328	$ 993,441	$ 6,985,021	$ 2,124,966	$ 10,180,756
STATEMENT OF NET COST					
Program Costs	$ 15,795	$ 412,450	$ 116,393	$ (33,543)	$ 511,095
Less Earned Revenue	(3,060)	(349,563)	(1)	163	(352,461)
Net Program Costs	$ 12,735	$ 62,887	$ 116,392	$ (33,380)	$ 158,634
Net Cost of Operations	$ 12,735	$ 62,887	$ 116,392	$ (33,380)	$ 158,634
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 11,061	$ 85,794	$ 6,637,926	$ 1,000,387	$ 7,735,168
Net Cost of Operations	$ 12,735	$ 62,887	$ 116,392	$ (33,380)	$ 158,634
Budgetary Financing Sources	77,726	0	639,424	897,958	1,615,108
Other Financing Sources	21	(10,263)	(203,162)	214,029	625
Change in Net Position	$ 65,012	$ (73,150)	$ 319,870	$ 1,145,367	$ 1,457,099
Net Position End of Period	$ 76,073	$ 12,644	$ 6,957,796	$ 2,145,754	$ 9,192,267

BALANCE SHEET As of September 30 *(Amounts in thousands)*	2009 Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 9,179	$ 850,191	$ 74,694	$ 0	$ 934,064
Investments	0	0	5,228,046	0	5,228,046
Accounts and Interest Receivable	1,977	1,081	496,869	(2)	499,925
Other Assets	938	40,166	908,490	0	949,594
Total Assets	$ 12,094	$ 891,438	$ 6,708,099	$ (2)	$ 7,611,629
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities					
Other Liabilities	$ 1,031	$ 805,644	$ 70,176	$ (168)	$ 876,683
Total Liabilities	$ 1,031	$ 805,644	$ 70,176	$ (168)	$ 876,683
Cumulative Results of Operations	11,063	85,794	6,637,924	1,000,386	7,735,167
Total Liabilities and Net Position	$ 12,094	$ 891,438	$ 6,708,100	$ 1,000,218	$ 8,611,850
STATEMENT OF NET COST					
Program Costs	$ 19,593	$ 390,060	$ 109,887	$ (34,069)	$ 485,471
Less Earned Revenue	0	(439,502)	0	124	(439,378)
Net Program Costs	$ 19,593	$ (49,442)	$ 109,887	$ (33,945)	$ 46,093
Net Cost of Operations	$ 19,593	$ (49,442)	$ 109,887	$ (33,945)	$ 46,093
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 12,030	$ 45,106	$ 6,250,265	$ 0	$ 6,307,401
Net Cost of Operations	$ 19,593	$ (49,442)	$ 109,887	$ (33,945)	$ 46,093
Budgetary Financing Sources	18,724	0	551,534	966,442	1,536,700
Other Financing Sources	(100)	(8,754)	(53,986)	0	(62,840)
Change in Net Position	$ (969)	$ 40,688	$ 387,661	$ 1,000,387	$ 1,427,767
Net Position End of Period	$ 11,061	$ 85,794	$ 6,637,926	$ 1,000,387	$ 7,735,168

Other Disclosures

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

The USACE earmarked funds are presented by fund type vice individual fund due to the volume of individual earmarked funds based on the Statement of Federal Financial Accounting Standard No. 27, "Identifying and Reporting Earmarked Funds."

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, 2010, and 2009:

Special Funds

Special Recreation Use Fees. Title 16 United States Code (USC) 4601-6a granted the 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 the 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. 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 the FERC. Taxes imposed under this code are collected and then expended under the supervision of the 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 percent 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 percent 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 803f, and 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 the 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 percent 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). This fund 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. These funds are authorized by Title 33 USC 701h, 702f, and 703, which establishes funding to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc., in the course of flood control and river/harbor maintenance. Whenever any state or political subdivision thereof shall offer to advance funds for a flood control project duly adopted and authorized by law, the Secretary may at his discretion, receive such funds and expend the same in the immediate prosecution of such work. Advances are from the public and are inflows of resources to the government. This fund utilizes both receipt and expenditure accounts in accounting for and reporting the fund.

Trust Funds

South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund. This fund was established by Public Law (P.L.) 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 the Public Debt (BPD). The fund has reached the aggregate amount of $108.0 million. Withdrawals can be made by the 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. This fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to the 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 percent of project costs or 85 percent 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. This fund is authorized by Title 26 USC 9506. The title made the Inland Waterways Trust Fund (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. This fund was established by Title XIV of the Water Resources Development Act (the Act) of 1986, P.L. 99-662. The Harbor Maintenance Trust Fund (HMTF) is authorized to recover 100 percent of USACE-eligible operation and maintenance (O&M) expenditures for the maintenance of commercial navigation in harbors and channels as well as 100 percent 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, the 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 the 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. Leases

The USACE has no assets under capital lease.

Operating Leases - Lessee

As of September 30, 2010, the USACE has various noncancellable 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:

(Amounts in thousands)

Fiscal Year	Building Space
2011	$ 64,073
2012	65,995
2013	67,975
2014	70,014
2015	72,115
After 5 Years	394,352
Total Future Lease Payments	$ 734,524

Operating Leases - Lessor

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

(Amounts in thousands)

Fiscal Year	Land Rights
2011	$ 7,234
2012	6,859
2013	5,622
2014	4,748
2015	3,914
After 5 Years	3,279
Total Future Lease Payments	$ 31,656

FY 2010 Required Supplementary Stewardship Information

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)

(a) **Categories**	(b) **FY 2010**	(c) **FY 2009**	(d) **FY 2008**	(e) **FY 2007**	(f) **FY 2006**
Transferred Assets:					
1. National Defense Mission Related	$2,104	$1,198	$1,135	$1,028	$1,229
Funded Assets:					
2. National Defense Mission Related	$0	$0	$0	$0	$0
Totals	$2,104	$1,198	$1,135	$1,028	$1,229

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, the USACE has the authority to enter into cost-sharing agreements with nonfederal sponsors which are governed under numerous water resources development acts starting with the Act of 1992. Nonfederal physical property investments include federally-owned physical property transferred to state and local governments.

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

Investment values included in this report are based on nonfederal physical property expenditures.

FY 2010 Required Supplementary Information (RSI)

General Property, Plant and Equipment
Real Property Deferred Maintenance Amounts
As of 30 September 2010

Deferred maintenance is classified as not performed when it should have been or as scheduled but delayed to a future period. Deferred maintenance for FY 2010 is $2.6 billion for other structures. Operations managers identify the operation and maintenance (O&M) needs at each project in the civil works inventory. The O&M needs are based on inspections of project features, engineering analyses and historical experience.

Heritage Asset Condition

Condition of heritage assets is based on factors such as quality of design and construction, location, adequacy of maintenance performed, and continued usefulness. The USACE's heritage assets overall condition is deemed to be fair.

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2010 and 2009 (Amounts in thousands)	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds	Contributed Funds
Budgetary Resources:						
Unobligated balance, brought forward, October 1	$ 8,319	$ 3,394	$ 166,385	$ 4	$ 295,520	$ 489,443
Recoveries of prior year unpaid obligations	0	0	0	0	0	0
Budget authority						
Appropriation	134,000	64,171	847,181	0	0	529,810
Spending authority from offsetting collections						
Earned						
Collected	12,942	0	0	2,616	8,412,991	1,464
Change in receivables from Federal sources	2,174	0	0	0	6,491	(2)
Change in unfilled customer orders						
Advance received	0	0	0	0	1,152	339
Without advance from Federal sources	2,397	0	0	0	(6,017)	(60)
Expenditure transfers from trust funds	0	0	0	0	0	0
Subtotal	$ 151,513	$ 64,171	$ 847,181	$ 2,616	$ 8,414,617	$ 531,551
Nonexpenditure transfers, net, actual	0	(46,939)	84,567	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0	0	0
Permanently not available	0	0	0	(2,440)	0	0
Total Budgetary Resources	$ 159,832	$ 20,626	$ 1,098,133	$ 180	$ 8,710,137	$ 1,020,994
Status of Budgetary Resources:						
Obligations incurred:						
Direct	$ 129,574	$ 12,301	$ 942,682	$ 0	$ 0	$ 515,833
Reimbursable	17,412	0	0	176	8,608,412	958
Subtotal	$ 146,986	$ 12,301	$ 942,682	$ 176	$ 8,608,412	$ 516,791
Unobligated balance:						
Apportioned	12,846	8,325	155,451	0	0	0
Exempt from apportionment	0	0	0	4	101,725	504,203
Subtotal	$ 12,846	$ 8,325	$ 155,451	$ 4	$ 101,725	$ 504,203
Unobligated balance not available	0	0	0	0	0	0
Total status of budgetary resources	$ 159,832	$ 20,626	$ 1,098,133	$ 180	$ 8,710,137	$ 1,020,994
Change in Obligated Balance:						
Obligated balance, net						
Unpaid obligations, brought forward, October 1	$ 67,635	$ 5,784	$ 351,898	$ 0	$ 1,420,378	$ 360,821
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(5,068)	0	0	0	(163,892)	(73)
Total unpaid obligated balance	$ 62,567	$ 5,784	$ 351,898	$ 0	$ 1,256,486	$ 360,748
Obligations incurred net	146,986	12,301	942,682	176	8,608,412	516,791
Less: Gross outlays	(132,459)	(16,484)	(997,954)	(176)	(8,424,862)	(426,880)
Less: Recoveries of prior year unpaid obligations, actual	0	0	0	0	0	0
Change in uncollected customer payments from Federal sources	(4,572)	0	0	0	(473)	62
Obligated balance, net, end of period						
Unpaid obligations	82,162	1,602	296,626	0	1,603,928	450,731
Less: Uncollected customer payments from Federal sources	(9,639)	0	0	0	(164,365)	(11)
Total, unpaid obligated balance, net, end of period	$ 72,523	$ 1,602	$ 296,626	$ 0	$ 1,439,563	$ 450,720
Net Outlays:						
Gross outlays	$ 132,459	$ 16,484	$ 997,954	$ 176	$ 8,424,862	$ 426,880
Less: Offsetting collections	(12,942)	0	0	(2,616)	(8,414,144)	(1,803)
Less: Distributed Offsetting receipts	0	(56,338)	0	0 0	0 0	(529,810)
Net Outlays	$ 119,517	$ (39,854)	$ 997,954	$ (2,440)	$ 10,718	$ (104,733)

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

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

As of September 30, 2010 and 2009 (Amounts in thousands)	General Funds	FUSRAP AARA	General AARA	Combined 2010	Combined 2009
Budgetary Resources:					
Unobligated balance, brought forward, October 1	$ 14,075,857	$ 40,765	$ 2,438,374	$ 17,518,061	$ 11,692,717
Recoveries of prior year unpaid obligations	40,133	0	0	40,133	862,852
Budget authority					
Appropriation	4,620,176	0	0	6,195,338	17,012,826
Spending authority from offsetting collections					
Earned					
Collected	1,649,252	0	122,609	10,201,874	11,886,071
Change in receivables from Federal sources	(6,943)	0	2,703	4,423	(246,081)
Change in unfilled customer orders					
Advance received	37,680	0	23,006	62,177	259,171
Without advance from Federal sources	(191,119)	0	2,442	(192,357)	(1,918,599)
Expenditure transfers from trust funds	851,019	0	0	851,019	862,543
Subtotal	$ 6,960,065	$ 0	$ 150,760	$ 17,122,474	$ 27,855,931
Nonexpenditure transfers, net, actual	145,967	(500)	500	183,595	170,543
Temporarily not available pursuant to Public Law	0	0	0	0	(10,000)
Permanently not available	(5,527)	0	0	(7,967)	(4,056)
Total Budgetary Resources	$ 21,216,495	$ 40,265	$ 2,589,634	$ 34,856,296	$ 40,567,987
Status of Budgetary Resources:					
Obligations incurred:					
Direct	$ 9,101,328	$ 39,933	$ 2,182,983	$ 12,924,634	$ 12,428,730
Reimbursable	1,991,819	0	243,733	10,862,510	10,621,196
Subtotal	$ 11,093,147	$ 39,933	$ 2,426,716	$ 23,787,144	$ 23,049,926
Unobligated balance:					
Apportioned	10,061,476	332	162,918	10,401,348	16,440,183
Exempt from apportionment	61,852	0	0	667,784	1,077,729
Subtotal	$ 10,123,328	$ 332	$ 162,918	$ 11,069,132	$ 17,517,912
Unobligated balance not available	20	0	0	20	$ 149
Total status of budgetary resources	$ 21,216,495	$ 40,265	$ 2,589,634	$ 34,856,296	$ 40,567,987
Change in Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, October 1	$ 6,908,462	$ 58,801	$ 1,952,354	$ 11,126,133	$ 9,392,894
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(2,862,166)	0	(222,140)	(3,253,339)	(5,418,018)
Total unpaid obligated balance	$ 4,046,296	$ 58,801	$ 1,730,214	$ 7,872,794	$ 3,974,876
Obligations incurred net	11,093,147	39,933	2,426,716	23,787,144	23,049,926
Less: Gross outlays	(9,621,126)	(35,504)	(2,083,094)	(21,738,539)	(20,453,837)
Less: Recoveries of prior year unpaid obligations, actual	(40,133)	0	0	(40,133)	(862,850)
Change in uncollected customer payments from Federal sources	198,062	0	(5,145)	187,934	2,164,679
Obligated balance, net, end of period					
Unpaid obligations	$ 8,340,350	63,230	2,295,976	13,134,605	11,126,133
Less: Uncollected customer payments from Federal sources	(2,664,104)	0	(227,286)	(3,065,405)	(3,253,339)
Total, unpaid obligated balance, net, end of period	$ 5,676,246	$ 63,230	$ 2,068,690	$ 10,069,200	$ 7,872,794
Net Outlays:					
Gross outlays	9,621,126	$ 35,504	$ 2,083,094	$ 21,738,539	$ 20,453,837
Less: Offsetting collections	(2,537,951)	0	(145,615)	(11,115,071)	(13,007,784)
Less: Distributed Offsetting receipts	$ (122,453)	0	0 0	(708,601)	(583,187)
Net Outlays	$ 6,960,722	$ 35,504	$ 1,937,479	$ 9,914,867	$ 6,862,866

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

U.S. ARMY

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Department of the Army

Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)

Office of the Financial Reporting Directorate
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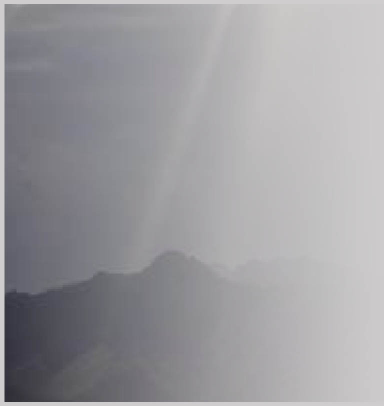

The Soldier's Creed

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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ARLINGTON, VIRGINIA 22202-4704

November 15, 2010

MEMORANDUM FOR THE COMMANDING GENRAL AND 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 2010 and FY 2009 Basic Financial Statements (Report No. D-2011-012)

We are providing the subject report to be published in the FY 2010 Agency Financial Report in conjunction with the U.S. Army Corps of Engineers, Civil Works, FY 2010 and FY 2009 Basic Financial Statements provided to us in draft on November 8, 2010. The report includes our unqualified opinion on the financial statements, and our required Report on Internal Control and Compliance With Laws and Regulations. We are issuing our unqualified opinion to accompany the U.S. Army Corps of Engineers, Civil Works, FY 2010 and FY 2009 Basic Financial Statements, and therefore, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh

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

INSPECTOR GENERAL
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MEMORANDUM FOR THE COMMANDING GENERAL AND 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 2010 and FY 2009 Basic Financial Statements (Report No. D-2011-012)

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 Sheet as of September 30, 2010 and 2009, and Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources 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. Our responsibility is to express an opinion on these financial statements and to report on the internal controls and compliance with laws and regulations based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAP), the Government Accountability Office, "Government Auditing Standards," and the requirements of Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended[*]. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USACE as of September 30, 2010 and 2009, and the Net Cost of Operations, Changes in Net Position, and Budgetary Resources for the years then ended in conformity with U.S. GAAP and the requirements of OMB Circular A-136, "Financial Reporting Requirements." In addition to our opinion on the financial statements, we are including the required Report on Internal Controls and Compliance with Laws and Regulations (Report). This Report is an integral part of our opinion on the financial statements and should be considered in assessing the results of our work.

[*] OMB Memorandum No. 09-33, Technical Amendments to OMB Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 23, 2009.

Matters of Emphasis

Based on the pervasive internal control weaknesses related to USACE's financial reporting process and the extensive effort needed to audit these basic financial statements, we have concerns whether USACE will be able to sustain the level of effort necessary to continue the annual audit process. USACE has not fully implemented an appropriate organizational and internal control structure that is necessary for effective financial management and oversight. Although USACE financial management oversight exists, weaknesses in the entity-level control structure continue to affect USACE's financial reporting process. Because of USACE's weak entity-wide controls, USACE management adjusted material 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. More importantly, without first correcting these material internal control weaknesses, USACE may not produce accurate, complete, and timely financial information for the financial statements, which could ultimately result in significant misstatements. When USACE corrects the internal control weaknesses, the audit will become more efficient and USACE management will have more reliable financial information readily available for decision-making.

In addition, USACE Management Discussion and Analysis (MD&A) does not include a section for systems, controls, and legal compliance as required by SFFAS No. 15. However, the MD&A, 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. Expressing an opinion on the MD&A, Required Supplementary Information, and Required Supplementary Stewardship Information was not an objective of the audit. Accordingly, we do not express an opinion on this information.

Summary of Internal Control

In planning our work, we considered USACE's internal control over financial reporting and compliance with applicable 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 applicable laws and regulations.

Our internal control procedures identified material weaknesses and significant deficiencies in USACE's internal controls. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified the following material weaknesses, all of which existed in prior years:

- General Property, Plant, and Equipment
- Controls Over Customer Agreements
- Entity-Wide Internal Controls
- Financial Reporting

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified the following significant deficiencies, one of which, Financial Management Systems, existed in prior years:

- Payroll
- Financial Management Systems

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 the material weaknesses and significant deficiencies.

Summary of Compliance With Laws and Regulations

As part of obtaining reasonable assurance about whether the USACE FY 2010 and FY 2009 Basic 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 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 Managers' Financial Integrity Act (FMFIA) of 1982
- Federal Financial Management Improvement Act (FFMIA) of 1996
- South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund

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 U.S. GAAP;
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Commanding General and Chief of Engineers, U.S. Army Corps of Engineers, who provided technical comments that we 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 implementing 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 of USACE management's assertion that the FY 2010 and FY 2009 Basic Financial Statements were free of material error, we performed auditing procedures to determine whether the financial statements were presented fairly 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. 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 material weaknesses and significant deficiencies over financial reporting.

We conducted our audit in accordance with U.S. GAAP, the Government Accountability Office "Government Auditing Standards," 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 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 U.S. GAAP, and to safeguard assets against loss from unauthorized acquisition, use, or disposition; and

- 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 FMFIA. Rather, we focused our internal control testing on controls over financial reporting and compliance with laws and regulations.

Material Weaknesses

During the audit, we identified General Property, Plant, and Equipment, Controls over Customer Agreements, Entity-wide Controls, and Financial Reporting as material weaknesses. USACE management reported these material weaknesses in its FY 2010 Annual Statement of Assurance on Management Controls.

General Property, Plant, and Equipment

The General Property, Plant, and Equipment (PP&E) line item is the single largest category of assets in the USACE FY 2010 Basic Financial Statements. Its four main components are Construction-in-Progress (CIP), Buildings and Other Structures (B&S), Land, and Equipment. Effective control and accountability over General PP&E assets are, therefore, a key USACE management imperative. During our FY 2010 audit, we noted that USACE had made some improvements in implementing controls over General PP&E. However, USACE needs to make further improvements to increase the potential that material misstatements are prevented or detected, and corrected on a timely basis. Our audit found material weaknesses with USACE management review of CIP and General PP&E.

Construction-in-Progress Quarterly Reviews

The USACE CIP quarterly review process was ineffective. USACE required each district to perform CIP quarterly reviews to verify that costs in the CIP account were part of active, ongoing projects, and that these costs were not identified with any asset previously placed in service or did not represent a completed asset that should have been placed in service. The reviews should also have identified expenses that USACE incorrectly classified as CIP. However, our audit identified that 14 of the 35 projects reviewed were incorrectly reported as CIP. Eight of those projects should have been transferred to General PP&E, two should have been expensed, and four should have been reported in the Internal-Use Software in Development account. Our audit also identified that 70 of 185 completed assets were not timely transferred from CIP to General PP&E. Some of these assets were completed in prior years, but USACE failed to transfer them to in-service accounts until FY 2010.

Supervisory Review over CIP and General PP&E Transactions

The USACE review process did not identify erroneous CIP and General PP&E transactions entered into the Corps of Engineers Financial Management System (CEFMS). We identified many transactions that were incorrectly capitalized or expensed. This occurred partly because communications between USACE operations personnel and resource management personnel were inconsistent and did not always occur timely. We identified the following examples of CIP and General PP&E transactions errors.

- Costs incorrectly included in CIP:
  - Routine repairs and maintenance.
  - Costs related to a cost share project owned by the non-Federal sponsor.
  - Costs related to construction of an asset on behalf of another Federal entity when ownership will be transferred to the other entity upon completion.

- Costs incorrectly included in General PP&E (placed in service):

- An asset that was never completely constructed or used.
  - A condemned building.
  - Equipment that was fully depreciated and had been taken out of service.

- Cost incorrectly expensed:
  - Depreciation as a result of assets with incorrect useful life
  - Labor for a construction asset.

The above misstatements resulted in more than $500.0 million in adjustments. Classification errors between CIP and General PP&E also caused an understatement of prior year and an overstatement in current year depreciation expenses. Incorrect capitalization of operations and maintenance costs resulted in an overstatement of assets and an understatement of expenses. Overall, inconsistent communication between the operations and resource management, and insufficient supervisory review, will keep USACE from preventing or detecting a misstatement in the financial statements.

Controls Over Customer Agreements

USACE financial management oversight of key complex financial transactions is ineffective. Our FY 2009 audit identified weaknesses related to the accounting over cost share agreements and long-term agreements. In FY 2010, USACE made some improvements, but weaknesses related to cost share revenue and cost share funding continued to exist.

Cost Share Revenue

USACE did not follow the matching concept when recognizing revenue for the cost share agreements in accordance with U.S. GAAP. Cost share agreements are agreements with a third party that is expected to cover a portion of the total project costs in cash; work-in-kind (WIK); or Land, Easements, Rights-of-Way, Relocation, and Disposal Areas. WIK and Land, Easements, Rights-of-Way, Relocation, and Disposal Areas are elements that comprise the estimated total cost of the project and are given consideration when initially determining cash needed in advance from the third party. USACE first considered WIK amounts rather than recognizing a proportional share of revenue. Accounting for these transactions in this manner results in inadequate full revenue recognition to match actual costs incurred by USACE.

Cost Share Funding

USACE improperly recognized appropriated funds received from promissory notes (notes receivable) related to cost share agreements as an advance of funds from the sponsor. Because the funding for the projects was provided through an appropriation, the non-Federal sponsor was permitted to defer its share of the costs, $1.5 billion, through a financing arrangement. The financing arrangement established a deferred payment schedule with payments to begin when the projects were completed. Because of the financing agreement, a promissory note exists which requires the sponsor to re-pay the $1.5 billion over 30 years. USACE incorrectly recorded an advance of $362.8 million from the sponsor to fund these projects. USACE has since recorded a correcting entry to adjust deferred revenue for $362.8 million.

In addition, for 4 of the 47 long-term agreements we reviewed, USACE used repayment and long term billing schedules incorrectly. This resulted in immaterial overstatements of the principle by $1.0 million and the accrued interest by $116,000.

Entity-Wide Internal Control

Internal control has five integrated components: 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 2010 audit, we continued to find deficiencies in four of the five components of USACE internal controls. USACE has not fully implemented an appropriate organizational and internal control structure that is necessary for effective financial management and oversight. Although USACE financial management oversight exists, weaknesses in the entity-level control structure continued to affect USACE financial management as noted below.

Control Environment

USACE has not fully implemented a financial management structure in which U.S. GAAP is effectively applied and policies and procedures are comprehensive and complete. The USACE financial management structure did not have appropriate and clear internal reporting relationships. Our audit also identified gaps in management's implementation of accounting standards in several process areas such as recoveries of prior year obligations and customer agreements.

Risk Assessment

USACE has not fully implemented an ongoing, entity-wide risk assessment process, as outlined in the FMFIA compliance paragraph.

Monitoring

USACE has not implemented entity-level monitoring controls. Specifically, USACE did not have:

- a process to monitor and control timely completion of the action plan and update the status of milestones;
- an effective process for financial reporting of costs related to Long-Term Water Storage Agreements;
- an effective process for maintaining supporting documentation for WIK and Land, Easements, Rights-of-Way, Relocation, and Disposal Areas related to cost share agreements and the management review of cost share agreements;
- an effective process for the timely completion and adequacy of management reviews of PP&E;
- an adequate oversight plan for reviewing adjustments made in the financial reporting process; and

- an adequate oversight plan for the processes prescribed by and reporting related to FMFIA and the Federal Financial Management Improvement Act (FFMIA).

Information and Communication
USACE has not developed or fully implemented adequate information systems controls and communication relevant to financial reporting as evidenced by the weaknesses noted in USACE's information technology area.

Because of USACE's weak entity-wide controls, USACE management adjusted material 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. More importantly, USACE may not produce accurate, complete, and timely financial information for the financial statements, which could ultimately result in significant misstatements.

Financial Reporting

USACE has a complex financial reporting process that includes summarizing accounting transactions from 60 CEFMS databases. The accounting transactions data are further summarized and compiled into the Defense Departmental Reporting System (DDRS), which generates the USACE financial statements. Our audit identified internal control deficiencies with the preparation, review, and approval of journal vouchers in CEFMS and DDRS. We also identified internal control deficiencies related to USACE budgetary and accounting policies.

Preparation and Related Review and Approval of Journal Vouchers
During the FY 2010 audit, we noted internal control deficiencies with the USACE's CEFMS and DDRS journal vouchers. Specifically, USACE had internal control deficiencies related to the completeness, existence, accuracy, presentation, and rights and obligations of journal vouchers. USACE did not have proper documentation to support manual CEFMS journal vouchers. Our audit noted instances where journal vouchers were mathematically inaccurate, not recorded properly, and not properly reviewed and approved. As of July 2010, USACE changed the policy for processing CEFMS journal vouchers and this condition has been corrected.

USACE also did not have effective internal controls over trading partner reconciliations in DDRS. USACE did not identify the causes of unreconciled variances between trading partner activity loaded into DDRS and the amounts represented in the DDRS trial balance for Federal expenses. Instead, USACE eliminated these variances by recording "unsupported" journal voucher reclassifying amounts between Federal expenses and non-Federal expenses to reconcile the data and complete the financial statement process. DDRS requires that the trial balance and the trading partner agree in order to complete the financial statement process. USACE financial statements could be materially misstated if these transactions were entered into DDRS and the activity was the result of erroneous transactions and records outside of USACE.

Budgetary Accounting

USACE management did not have policies and procedures in place to record recoveries in a correct and timely manner and ensure all recoveries were properly supported with adequate documentation. In addition, CEFMS is not configured to accurately record line item funding shifts on, administrative changes to, and project management transfer obligations recorded in prior fiscal years. As a result, USACE management incorrectly accounted for recoveries of prior year obligations and recorded an adjustment for approximately $900.0 million to correct the Statement of Budgetary Resources.

Accounting Policies

During our FY 2010 audit, we noted internal control deficiencies in USACE accounting policies and procedures related to leases, recording transactions in accordance with the United States Standard General Ledger (USSGL), and identifying inventory in Operating Materials and Supplies (OM&S).

Leases. USACE did not have sufficient controls over accounting for and reporting leases. Specifically, USACE calculated its future minimum operating lease payments as an amount proportional to the number of Civil Works operating leases to total USACE leases. USACE did not present future minimum lease payments for actual operating leases. Because of USACE's method of calculating future operating lease payments, the detailed leases schedule by lease agreement did not agree with the footnote.

USACE's inadequate lease policies and procedures increased the risk that the leases footnote may not be presented fairly in accordance with generally accepted accounting principles.

Recording transactions in accordance with USSGL. USACE classified costs for internal use software (IUS) development for several systems as CIP instead of IUS-In-Development (General Ledger Account Code 1832), resulting in a misclassification between IUS and CIP of approximately $23.0 million. Additionally, USACE did not include Account Code 1832 in its CEFMS account structure because of the infrequency of IUS-In-Development transactions. USACE's failure to record transactions in accordance with the USSGL may result in non-compliance with FFMIA.

Operating Materials & Supplies (OM&S). USACE did not adequately identify inventory items in accordance with SFFAS No. 3, "Accounting for Inventory and Related Property." During our audit, we identified items capitalized as OM&S for which management should have applied the purchases method of accounting. These items should be expensed when purchased. By including these items as OM&S, USACE overstated the OM&S balance as of September 30, 2010 for an unknown total amount. However, the OM&S account balance is not material to the financial statements taken as a whole.

Trust Fund Classification

USACE inappropriately classified the South Dakota Terrestrial Wildlife Habitat Restoration Fund (Restoration Fund) as an earmarked fund, instead of a nonentity asset, as defined by U.S. GAAP. Specifically, USACE continued to inappropriately record the interest earned on the investments held in the Restoration Fund as an entity asset. However, USACE did not have the right (legal ownership) to use the interest earned on the investments held in the Restoration Fund for USACE operations. Therefore, the interest earned on the investments held should have been recorded as a nonentity asset.

Significant Deficiencies

During the FY 2010 audit, we identified the following two significant deficiencies, of which, Financial Management Systems existed in prior years. USACE management did not and was not required to report significant deficiencies in its FY 2010 Annual Statements of Assurance on Management Controls.

Payroll Expense

USACE did not have effective internal controls in place related to the completeness and accuracy of payroll expense. Specifically, USACE management did not require their Customer Service Representatives to document and maintain confirmation of the record count of payroll files sent to Defense Finance and Accounting Services (DFAS) on a bi-weekly basis. Instead, the Customer Service Representatives verbally communicated the record count. Additionally, there were no system edit checks or formal verification in place to ensure that the files DFAS' Defense Civilian Pay System (DCPS) received were complete. USACE's inadequate data integrity of file transmissions into DCPS could result in a misstatement in the payroll expense and disbursement accounts.

Payroll Rates and Reconciliations for Payroll Disbursements

USACE did not always record the correct employee hourly pay rates in CEFMS and did not perform reconciliations between the payroll amounts disbursed by DFAS to the payroll expense amounts recorded in CEFMS. Erroneous payroll data could result in an understatement of payroll expenses in CEFMS. Further, the inadequate reconciliations between DFAS disbursement data and CEFMS payroll expense data increased the risk that USACE may not timely detect and correct improper payroll transactions processed by DFAS.

Policies and Procedures to Review Service Organization Report

USACE management did not obtain, review, or evaluate the results of the DFAS DCPS Statements on Auditing Standards (SAS) 70 report. The SAS 70 report provides an opinion on the fairness of presentation, adequacy of design, and operating effectiveness of key controls that are relevant to audits of DCPS's user organization, like USACE, financial statements. USACE lack of policies and procedures requiring the review of the SAS 70 report could result in USACE management not identifying whether controls performed at the service organization are properly designed and operating effectively to help prevent or detect material misstatements impacting USACE financial statements.

Financial Management Systems

USACE financial management systems did not comply with DOD and National Institute of Science and Technology (NIST) requirements. Weaknesses continued to exist in the policies and procedures set up to govern security management, access controls, and configuration management. During our FY 2010 audit, we noted that USACE management had not developed and implemented an entity-wide Plan of Action and Milestones policy that incorporated all required guidance. The ineffective policies and procedures in the Information Technology environment increased the risk that management would continue to be unaware of significant security weaknesses and, therefore would not resolve them in a timely manner. This could leave

USACE systems open to possible security vulnerabilities. In addition, management had not placed in operation a process that required the review of a system-generated change log to ensure all changes were authorized. USACE did not have any policies and procedures requiring system administrators to monitor default, emergency, and database accounts. The inadequate policies and procedures over configuration management and access controls increased the risk that unauthorized, untested, and harmful system changes could occur, impeding the confidentiality, integrity, and availability of CEFMS data.

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 USACE's compliance with selected provisions of the applicable laws and regulations was to obtain reasonable assurance that USACE FY 2010 Basic Financial Statements were free from material misstatement. We performed tests for compliance with provisions of laws and regulations that could have a direct and material effect on the determination of financial statement amounts, as well as with other relevant laws and regulations specified in 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. Accordingly, we do not express an opinion on compliance with applicable laws and regulations.

Our audit disclosed instances of noncompliance or other matters that Government Auditing Standards and OMB Bulletin No. 07-04 required agencies to report.

Federal Manager's Financial Integrity Act of 1982

USACE was not compliant with FMFIA. The USACE FMFIA process was not properly designed, not operating effectively, and not sufficient to identify, evaluate, correct, and report all material weaknesses. USACE had not fully implemented its internal control program to ensure that the entity took appropriate action throughout the year to meet the objectives of FMFIA.

USACE asserts that internal controls meet the requirements of OMB Circular No. A-123, Appendix A, for Internal Controls over Financial Reporting except for a material weakness related to General PP&E based on its FY 2009 audit report. Although USACE performs its own assessment to determine that financial systems are effective and operating in compliance with FMFIA, its primary source of information for its assurance statement is our audit report. Thus, the USACE FY 2010 Annual Statement of Assurance is not prepared in accordance with the requirements of OMB Circular No. A-123 (the circular issued under the authority of FMFIA), Appendix A, Section V, "Management's Assurance Statement on Internal Control over Financial Reporting."

Further, USACE did not report within its Annual Statement of Assurance whether its accounting system (financial management system) conformed to the principles, standards, and requirements prescribed by the Government Accountability Office as required by FMFIA, Section 4. Lastly, several of USACE's cycle memoranda were incomplete or inaccurate and thus did not meet the documentation requirements established by OMB Circular A-123, Appendix A, Section IV.

Federal Financial Management Improvement Act of 1996

USACE did not have sufficient controls to ensure compliance with all requirements of FFMIA. Specifically, USACE did not have robust policies and procedures to ensure review and appropriate implementation of applicable accounting guidance. In addition, USACE has not resolved CEFMS programming limitations so that transactions can be recorded in accordance with the USSGL requirements. Because USACE has not ensured appropriate implementation of applicable accounting guidance and has not resolved the programming limitations that exist in CEFMS, USACE personnel will need to continue manually recording significant DDRS journal vouchers so that activity is properly recognized and in compliance with the USSGL.

Water Resources Development Act of 2007

USACE did not comply with Public Law 110-114, Title V, Section 5129, "Water Resources Development Act of 2007," which requires that the Restoration Fund include two asset accounts, one for the principal of the investment and one for interest earned on the investment. Management did not perform a thorough review of the guiding public law establishing the Restoration Fund to properly present the related financial information in the USACE financial statements. As a result, the disclosure of nonentity assets and liabilities is understated by $20.5 million, the amount of interest associated with the Restoration Fund.

Audit Disclosures

We provided the recommendations for corrective actions for the USACE material weaknesses and significant deficiencies, and noncompliance with laws and regulations addressed in this report to USACE management in notices of findings and recommendations.