# 2007

Fiscal Year 2007 United States Army Annual Financial Statement

## *Commitment to Current and Future Readiness*

## About the Cover

### Bottom Image

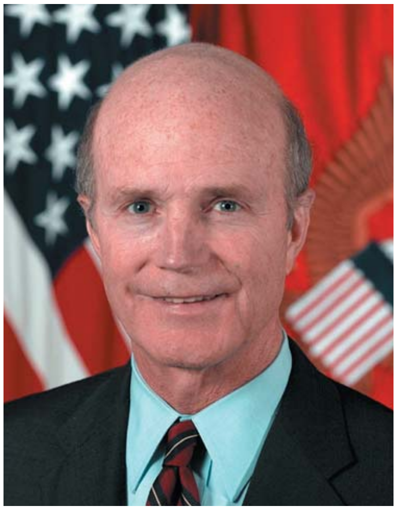
Soldiers from the 3rd Brigade Combat Team, 25th Infantry Division. The smoke is from a controlled IED detonation.

### Top Image

Soldiers from the 58th Brigade Combat Team practice room-clearing procedures during training. The brigade is preparing to deploy to Iraq.

# Contents FY 2007

*Commitment to Current and Future Readiness*



The Honorable
**Pete Geren**
Secretary of the Army

While the Army remains a resilient, committed, professional force, it is out of balance. Six years of war and the demands of repeated deployments have stretched and stressed our institutions, support structures, equipment, Soldiers, Families and Army Civilians.

We are acting quickly to restore this balance—to preserve our All-Volunteer Force, to rebuild the necessary depth and breadth of Army capabilities, and to build essential capacity for the future. We have a plan centered on four imperatives that frame what we must do: we need to improve the manner in which we sustain the Army's Soldiers, Families and Civilians; we must continue to prepare our forces for success in the current conflict; we must continue to reset our units and rebuild readiness for future deployments and contingencies; and we must continue to transform our Army—including accelerating Army growth—to meet the demands of the 21st Century.

Much of our Soldiers' strength comes from the strength of their Families and we've asked much of Army Families. In this era of persistent conflict, we will ask more of Soldiers and we must do more for their Families. To that end, we are committed to standardizing and funding existing Family programs and services: increasing accessibility and quality of health care; improving housing; ensuring excellence in schools, youth services, and child care; and expanding education and employment opportunities for Family members. We owe our Families a quality of life comparable to the quality of their service, and while we can never match their sacrifice, we can do more to recognize their service.

Successfully restoring our balance through these imperatives will require considerable resources and several years. With your support, we have made significant progress in Fiscal Year 2007, but more remains to be accomplished. We need your continued support and partnership as we build the Army needed to protect our Nation in the 21st Century.

Pete Geren
Secretary of the Army

*Commitment to Current and Future Readiness*

The Honorable
Nelson M. Ford
Assistant Secretary of the Army
(Financial Management and Comptroller)

With declining defense budgets a likely prospect in the near future, efficient management of the Army's finite resources will be the key to providing the capabilities needed by Soldiers on the battlefield. To ensure that we can satisfy this obligation, the Army must establish a "cost culture" now -- a culture in which all leaders and managers factor cost into their decision-making and understand both the near and long-term cost implications of their decisions.

An effective cost culture has three requirements: establishment of the doctrinal Army's cost, stronger internal controls and a modernized enterprise business system. The Army already has developed a tool to assess the full cost of producing and sustaining a force (institutional and operational) capable of fulfilling the National Military Strategy. Our most recent analysis concluded that the annual cost of this "doctrinal" Army in FY 2008 dollars is $152 billion, a significant increase from last year's estimate of $138 billion. This rise was due largely to the President's decision to grow the Army by 74,000 active- and reserve-component personnel by FY 2010.

The Army is making good progress in implementing the second element of cost culture. In FY 2007, we strengthened internal controls to improve compliance with laws and regulations and focused more attention on development and application of controls that safeguard both current appropriations and existing assets. These efforts have enabled the Army to reduce costs with no loss of mission effectiveness.

With respect to systems modernization, the Army accelerated implementation of several systems, reducing transaction costs for vendor payments and travel vouchers and improving the linkage among the Army's procurement, supply and finance functions.

I see the eventual fielding of the General Fund Enterprise Business System (GFEBS) as a critical element of the cost culture for which we strive. Due for full deployment in FY 2011, GFEBS will not only eliminate 87 of our legacy financial systems and enable the creation of auditable financial statements; but will also place real time, high quality cost data in the hands of decision makers, empowering them to make prudent financial choices like never before. GFEBS Release 1.1 already has shown that the system can capture all real property inventory information and its associated financial data. Release 1.2 will expand the system to 38 installation functions, including financial processes for command and staff, personnel and community, information technology, operations, logistics, engineering, resource management, acquisition and health services.

The reliance on supplemental appropriations continues to be a concern. It is likely that large supplementals will shrink dramatically within the next five years. Yet, many of the requirements and missions now covered by supplemental funding will continue. It will be extremely difficult to absorb these costs into the Army's current baseline. A simultaneous decrease to the Army's base budget in real terms -- a distinct possibility, if history is any indicator – would make it impossible.

It is critical that we be prepared to mitigate these budget pressures as much as possible. Army leaders must make the tough decisions that produce the best possible use of finite resources and improve the efficiency and effectiveness of our operations. Resource stewardship, and the tradeoffs between cost and performance, must become a part of every conversation. Only then can we be assured of maintaining an Army capable of meeting the Nation's defense requirements.

Nelson M. Ford
*Assistant Secretary of the Army (Financial Management and Comptroller)*

*Commitment to Current and Future Readiness*

The Honorable

John Paul Woodley, Jr.

Assistant Secretary of the Army
(Civil Works)

During Fiscal Year 2007, the Army Corps of Engineers continued to serve the nation with its engineering and construction expertise both at home and abroad. Today, the Corps is present in over one hundred countries throughout the world, including Iraq and Afghanistan, where it is working to advance security, stability and economic opportunity in these regions.

In addition to military programs at home and abroad, the Corps also attended to its Civil Works mission in the United States, highlighted in large part by its work in response to the destruction on the Gulf Coast and in the city of New Orleans caused by Hurricanes Katrina and Rita in 2005. In FY 2007, the Corps continued this massive effort to restore over 220 miles of damaged levees and floodwalls in order to reduce the risk of flooding in the metropolitan New Orleans area.

The Corps has looked beyond New Orleans and is applying the lessons learned from Hurricanes Katrina and Rita into a major initiative to transform planning, design, construction, and operation and maintenance principles and decision-making processes. Key elements of the initiative are changes that will enhance the way the Corps uses risk management to guide decision making and ensures that all stakeholders understand the risks associated with water resources projects.

Much more remains to be done. In 2001, the American Society of Civil Engineers gave America's infrastructure an overall "D" condition rating. They repeated this unsatisfactory rating in 2005. Waterways and dams fared no better in either year. Deferred maintenance, rehabilitation and replacement of aging locks have driven up unscheduled closure times from an average of 12,000 to 22,000 hours per year. Harbor modernization is urgently needed to assure this Nation's place in world trade. Many of the Nation's busiest channels and harbors operate only 35 to 40 percent of the time at full depth over even half the authorized channel width. Hydropower facilities run by the Corps have been operating below industry standards by 8 to10 percentage points. The recent Minneapolis bridge collapse, flooding in the Midwest and Southwest, drought conditions in the Southeast, and the prospect for more severe floods and droughts, are stark reminders of the need to pay greater attention both to maintaining the integrity of our existing infrastructure and to planning for new investments.

The annual report addresses these and other challenges the Corps is facing in each of its business programs. The Army is committed to advancing the Civil Works mission through its strategic goals of sustainable development, environmental restoration, infrastructure modernization, effective disaster response, and world-class public engineering. Achieving these goals enhances the Corps ability to serve the public, and contribute to the Nation's economic strength and environmental well-being.

John Paul Woodley, Jr.

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

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

— General George Casey, Chief of Staff of the Army

# Overview

The Army today is a battle-hardened, all-volunteer force that has performed with courage, resourcefulness and resilience in the most grueling conditions. We have entered the seventh year of major combat operations in the Global War on Terrorism (GWOT). This war is the third-longest war in American history, after the Revolutionary War and the Vietnam War, and is the first extended conflict since the Revolution fought with an all-volunteer force.

The Army — Soldiers and their Families — is stretched to meet the demands of the current conflict. Presently, more than 150,000 Soldiers are in Iraq and Afghanistan. Since the beginning of combat operations, more than 550,000 Soldiers have served in combat zones, with more than 200,000 deployed multiple times, many serving three or four tours. Dwell-time back home is neither sufficient to reintegrate fully with the Family nor to train for the full spectrum of combat operations expected of our Army under the National Military Strategy. Yet, our resilient Soldiers and their Families continue to answer the call to duty and to display courage, professionalism and distinction. Our Soldiers reenlist and go back to the fight again and again. And, their Families continue to stand with them. Their actions demonstrate that our Army is the strength of our nation.

While we remain a resilient and committed professional force, our Army today is out of balance. Soldiers, Families, support systems and equipment are stretched and stressed by the demands of lengthy and repeated deployments, and insufficient recovery time. Equipment used for long periods in harsh environmental conditions is wearing out at a far greater pace than expected. Army support systems, including health care, education and Family programs that were designed for the pre-September 11 peacetime Army, are straining under the accumulated pressure of six years of war.

To restore balance, we must focus on **four imperatives:** ***sustain*** Army Soldiers and their Families; ***prepare*** our forces to succeed in the current conflict; ***reset*** and repair units and equipment; and ***transform*** and grow the Army to be ready for current operations and future contingencies.

The Army's recently announced Family Covenant is a series of new programs and resources to ***sustain*** the continued strength and resilience of Army Families. We will also ensure that our Wounded Warriors receive the care and support they need to reintegrate effectively into the Army and society. We will never forget our moral obligation to the spouses and Families who have lost their Soldiers since September 11, 2001.

We must ***prepare*** our forces to succeed in the current conflict. We have made great strides in equipping our Soldiers, and we are continually adapting our training and warfighting systems to keep pace with an evolving enemy. We remain committed to providing all deploying Soldiers the best available equipment to ensure that they maintain a technological advantage over any enemy they face. We will continue to provide rigorous training at home stations and in our combat training centers to give Soldiers and their leaders the confidence they need to succeed in asymmetrical warfare. Military success in this war is tied to the capabilities of our leaders and our Soldiers — we will not fail to prepare them properly.

We continue to ***reset*** our units and prepare them for future deployments and future contingencies. Sustained combat has taken a toll on our Soldiers, leaders, Families and equipment. Since 2003, Army equipment has been used at a rate more than five times greater than expected. In addition to fixing, replacing and upgrading our equipment, and retraining for future missions, we must also revitalize our Soldiers and Families by providing them the time and the opportunity to recover and reverse the effects of sustained high operating tempo. This year, the Army will reset more than 130,000 pieces of equipment and almost 200,000 Soldiers. Congress' continued commitment to providing resources for reset is essential to restoring balance and to providing strategic depth and flexibility for the nation.

Finally, the demands of the 21st century require the Army to ***transform***. This is a holistic effort to adapt how we fight, train, modernize, develop leaders, and station and support our Soldiers, Families and civilians. Transformation includes giving Soldiers equipment that provides a decisive advantage over any enemy, and developing agile and adaptive leaders who can handle the full spectrum of operations. It also entails modernizing business processes, through Lean Six Sigma, and our business systems.

Our focus over the next several years will be to bring our Army back into balance while continuing to provide the forces necessary for victory. Restoring this essential balance, and doing so as rapidly as possible, will be no easy task, and it will require the full support of the Congress and the American people.

> ***"Our challenges in fighting a war and transforming our Army at the same time are formidable - but not unique. Other generations of Americans - Soldiers and civilians - have faced determined enemies while driving revolutionary change in the Armed Forces - in fact, it is often the crucible of war that demands and forces the change."***
>
> – The Honorable Pete Geren, Secretary of the Army

## Mission

The Army's mission is to support the National Military Strategy by providing well-trained, well-led and well-equipped forces to the combatant commanders. This mission encompasses the intent of the U.S. Congress, as defined in Title 10 of the U.S. Code, for the military to:

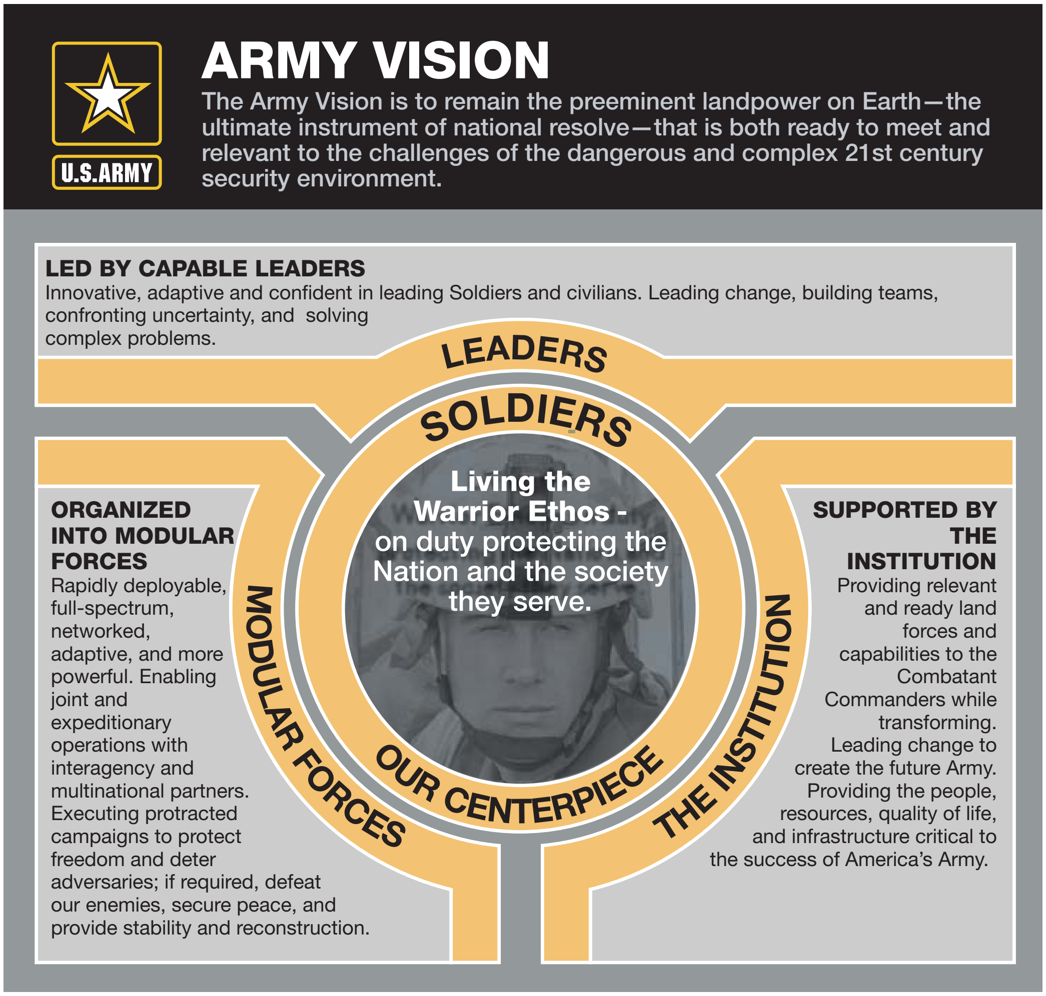
- Preserve the peace and security of, and provide the defense for, the United States, the Territories, Commonwealths and Possessions of the United States, and any areas occupied by the United States;
- Support the national policies;
- Implement national objectives; and
- Overcome any nations responsible for aggressive acts that imperil the peace and security of the United States.

This mission has remained constant throughout the 232-year life of the Army; however, the environment and nature of conflict have changed dramatically over that same time, especially in the context of today's GWOT. New adversaries and the growth in asymmetric warfare have compelled the Army to transform how it trains and equips its Soldiers, how those Soldiers are organized and how they fight. This near-revolution is progressing rapidly, and it must not slow or falter if the Army is to continue to meet the nation's domestic and international security obligations today and into the future.

## Vision

The Army is committed to remaining the world's preeminent land power -- relevant and ready at all times to serve the nation and to support our allies. The Army will continue to supply U.S. combatant commanders with the forces necessary to defeat any adversary, in any situation, at any time. The Army, therefore, must fully train and appropriately organize its forces; develop innovative and adaptive leaders; and design support structures appropriate for the new global security environment.

**Figure 1. Army Vision Chart**

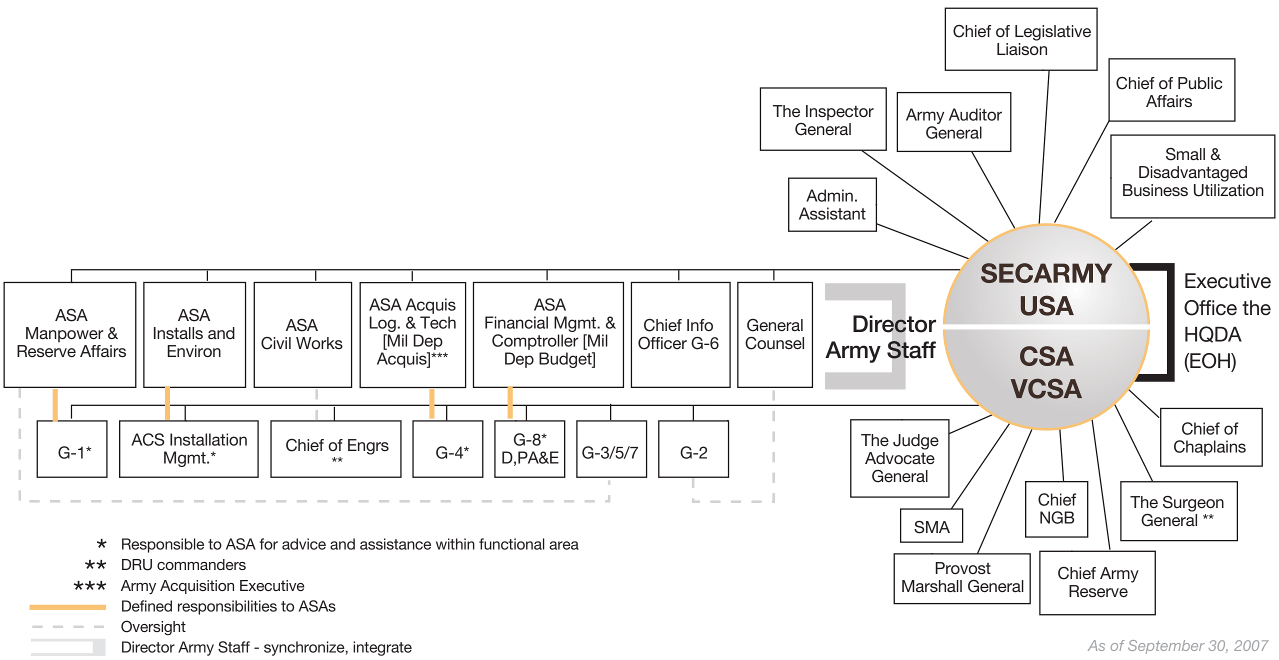



## Organization of the Army

The Army is a large and complex organization, with more than 522,000 active duty Soldiers and approximately 264,000 active and reserve component Soldiers deployed or forward-stationed in nearly 80 countries overseas. These warfighters are supported by more than a quarter-million civilians, who are critical members of the institution at every level.

The Army is organized with the primary objective of supporting and sustaining the mobilization, training and deployment of its Soldiers anywhere in the world. The Headquarters, Department of the Army (HQDA) (Figure 2), under the direction of the Secretary of the Army and the Chief of Staff, leads and manages the entire Army.

**Figure 2. Headquarters, Department of the Army (HQDA)**




The Army's organizational structure consists of two interdependent pieces: (1) the warfighting, operational Army; and (2) the institutional Army, which supports those operational forces by providing the training, facilities and equipment necessary to prepare and to sustain Soldiers.

The operational Army provides the land power capabilities for the combatant commander. Within the operational Army, the transition from a division-centric warfighting force to a brigade-centric force continues. At the heart of this change is the modularization and standardization of Army brigade combat teams (BCTs), a process that is essential to the development of a more rapidly deployable, flexible and powerful force.

Viewed by its constituent elements, the Army can be separated into the active and reserve components.

The active component consists of full-time Soldiers assigned to the operational and institutional organizations that perform day-to-day Army missions. The Congress annually reviews and mandates the number of Soldiers that the Army may maintain.

The reserve component consists of the Army National Guard (ARNG) and the U.S. Army Reserve (USAR). The ARNG has two missions: federal and state. Its federal mission is to provide trained and ready forces for wartime, national emergencies and other requirements, as necessary. Its state mission is to train for, and respond to, domestic emergencies and other missions as required by state law. Unless federally mobilized, ARNG units are commanded by their state executive, usually the governor.

The USAR is the primary federal reserve force of the Army. The USAR provides specialized units and resources to support the deployment and sustainment of Army forces around the globe. In addition, the USAR is the main source of individual Soldiers to augment headquarters staff and to fill vacancies in the active component.

Throughout FY 2007 and several prior fiscal years, the Army experienced unprecedented high levels of reserve component activation and deployment.

## Performance Goals, Objectives and Results

Our country has been at war for six years since the September 11, 2001, attacks on New York City and the Pentagon. The Army has been a leader in this war and in the liberation of 50 million people from tyranny and oppression. It has also been fully engaged in the difficult process of consolidating success, building stability and providing assistance in the development of local security forces and governance capacity. Over time, these operations have expanded in scope and duration. They have also stretched and, as a result, stressed our all-volunteer force.

Our immediate challenge is to balance the current demands on the all-volunteer force with the need to transform, to implement the Army Force Generation Model and to build readiness for the future. These are not easy tasks and they require the full support of the Congress and the American people. The Army's force generation process is continual and enables us to return deployed forces to a ready state as quickly as possible; but, over the last six years, we have consumed ready units as fast as we have built them.

The Army Strategy Map, which consists of four overarching interrelated strategies and is supported by 19 strategic initiatives (Figure 3), continued to serve as the Army's strategic framework in FY 2007. The eighteenth and nineteenth initiatives, *Enhancing Strategic Communication and Securing Financial Resources and Legislative Authorities to Meet Requirements*, support all other initiatives and provide the means for executing the Army's strategic plans.

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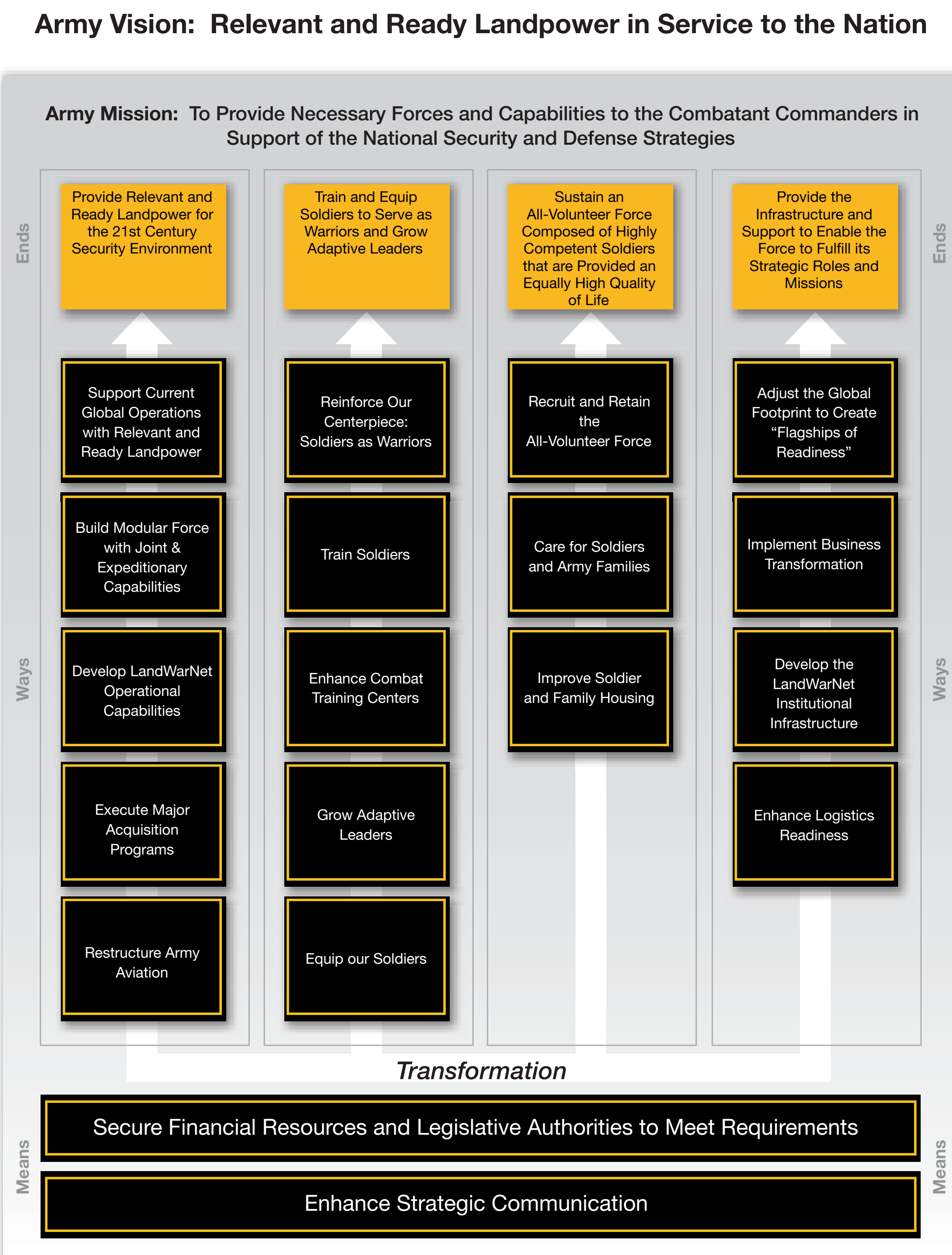
Figure 3. Army Strategy Map



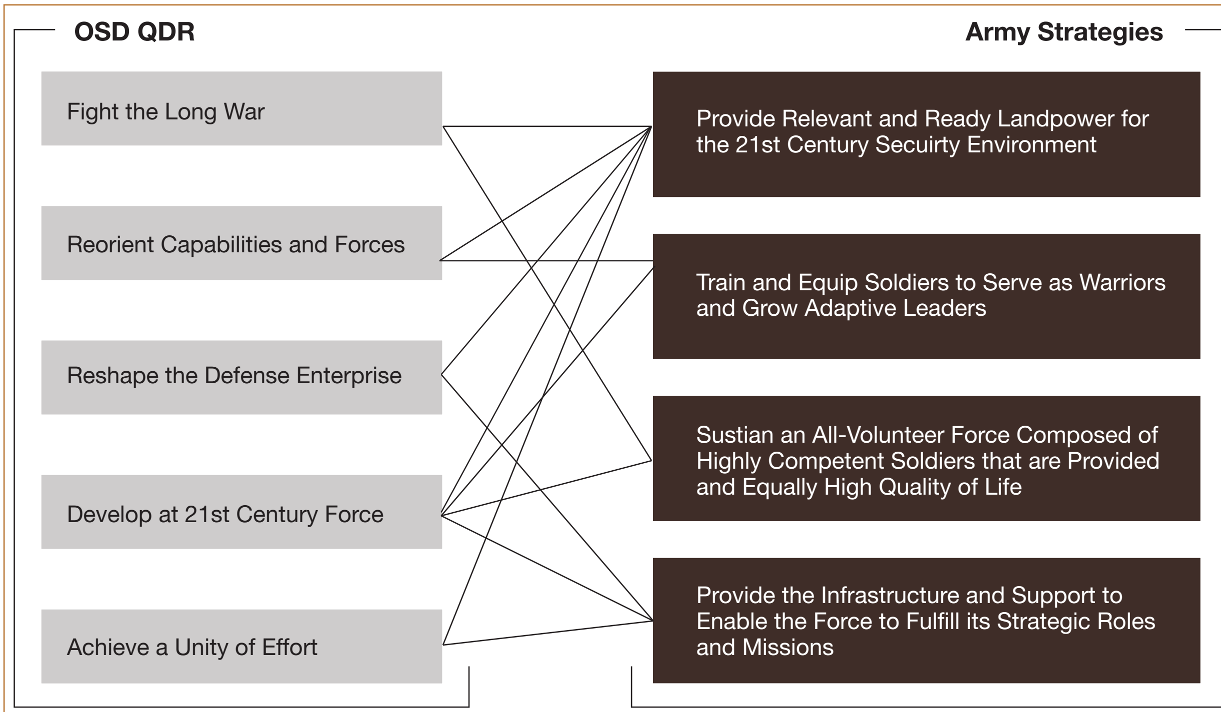

When the Honorable Pete Geren, Secretary of the Army, and General George Casey, Chief of Staff of the Army, assumed their duties, they identified four critical Army imperatives necessary to restore balance. These four imperatives will sustain our Soldiers, Families and civilians; prepare Soldiers for success in current operations; reset to restore readiness and depth for future operations; and transform the Army into the force the nation needs today and in the future.

In FY 2007, the Army updated its detailed analysis to validate the cost of the force structure associated with accomplishing the missions set forth by Office of the Secretary of Defense (OSD). The analysis identified that, in order to fully support the OSD strategy as laid out in the Quadrennial Defense Review (QDR), the Army requires annual basic appropriations of $152 billion in FY 2008 dollars, once the Army reaches the force structure levels approved by OSD and after operational demand reverts to that of a peacetime status.

The Army's four overarching interrelated strategies, in conjunction with the QDR, as shown in Figure 4, provide a framework to achieve the objective of building and transforming the force into a campaign-quality expeditionary Army capable of supporting the needs of combatant commanders across the spectrum of conflict. The Army Strategy Map will continue to evolve.

Presently, Army programs remain aligned with the current 19 initiatives and continue to guide the Army through the transformation of the force and the streamlining of its business processes. To support transformation, the Army is working to ensure that it has effective performance measures for all current strategic initiatives. To date, most of these initiatives have matured and represent actionable performance measures. The following section discusses FY 2007 Army strategies, goals and program performance results.

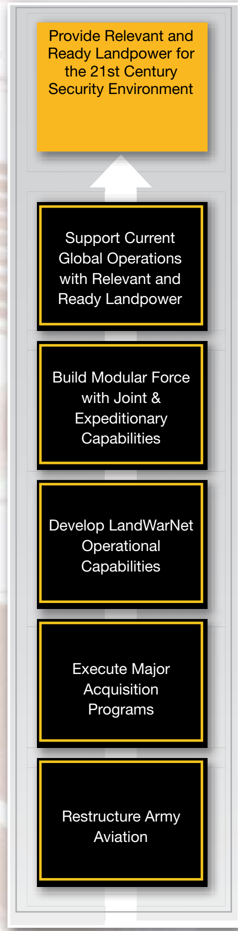
**Figure 4. Army Strategic Objective Alignment to OSD Quadrennial Defense Review (QDR)**




The OSD Management Initiative Decision 901 (dated 20 December 2002) directs the components, including the Army, to ensure that their individual performance plans and balanced scorecards:

- Reflect the balanced scorecard quadrants associated with the risk management framework;
- Reflect the performance objectives established under the Department's balanced scorecard for the QDR risk management framework; and
- Align with and support the outcomes and supporting performance metrics of its next higher organization.

The first shipment of Mine Resistant Ambush Protected vehicles arrived at Camp Liberty in western Baghdad and are being fielded to units who operate in areas with the highest threat levels.




## Army Strategy: Provide Relevant and Ready Land Power for the 21st Century Security Environment

The initiatives which support this first overarching strategy are interrelated and include:

- Support current global operations with relevant and ready land power;
- Build a modular force with joint and expeditionary capabilities;
- Develop LandWarNet operational capabilities;
- Execute major acquisition programs; and
- Restructure Army aviation.

The Army is simultaneously fighting today's battles and transforming the operational force into smaller, self-sufficient tactical units (the modular force). As part of the process, the Army is rebalancing critical skill sets to ensure that all units have the knowledge and capabilities required to succeed on the battlefield. Through LandWarNet, tactical units will attain improved situational awareness by way of voice, video and data transmissions that are pushed to the individual Soldier. In addition, these units will be equipped with Future Combat Systems (FCS) technology to improve lethality and survivability. The Army continues to modernize its air capabilities to reduce maintenance, to increase survivability and to improve readiness.

### *Support Current Global Operations with Relevant and Ready Land Power*

The pace of operations in the new security environment presents a number of significant force management challenges to the Army. As a result of the Army's global commitments, 264,000 Soldiers are deployed or forward-stationed in nearly 80 countries overseas. As of October 2007, approximately 522,000 personnel are serving in the active component, and approximately 71,400 reserve-component Soldiers are authorized for mobilization or on current orders.

Repeated deployments affect recruiting and retention, and they have a very real impact on our ability to care for our Soldiers and their Families. To meet today's challenges, and to better position troops for the future, the Army is pursuing numerous initiatives that will reduce force management risk. By developing the Army Modular Force, we will significantly increase the pool of rotating units. By employing the Army Force Generation Model (ARFORGEN), we will reduce the stress on the force. The results will be greater stability, unit cohesion and readiness, and less uncertainty for Families.

The ARFORGEN process leverages modular unit designs and operational cycles to create a sustainable deployment posture of operationally ready units in predictable patterns while retaining the capacity to surge combat power for major operations. When fully operational, ARFORGEN will enable the Army to schedule effectively and efficiently fully ready units for deployment, which will:

(1) Reduce uncertainty for Soldiers, Families and the communities that support installations;

(2) Improve the availability of forces for combatant commanders;

(3) Generate a continuous number of available brigade combat teams (BCTs),

augmented by all required supporting organizations (given appropriate mobilization authority); and

(4) Enable the Army to surge additional BCTs augmented by all required supporting organizations (given appropriate mobilization authority).

Soldiers load up their gear onto a UH-60 Black Hawk helicopter before they start their trip from Camp Taji back to the United States.

Upon return from deployment, Army units and equipment must be reset and repaired to ensure full readiness for future operations. In FY 2007, reset was highly successful despite a dynamic strategic environment. At the beginning of the fiscal year, the Army received $17.1 billion in supplemental funding from the Congress. The Army aggressively executed this funding to restore units' equipment readiness. The Army obligated the majority of procurement funding within 90 days of receipt, while Operation and Maintenance, Army (OMA) obligations occurred throughout the fiscal year as equipment returned. The surge of additional forces to Iraq and Afghanistan and the extension of unit deployments to 15 months reduced the amount of equipment returning from theater. Consequently, in July 2007, $0.7 billion in OMA funding was reprogrammed to support the Department of Defense's No. 1 acquisition priority, Mine-Resistant Ambush-Protected (MRAP) vehicles.

A fully funded Army reset program ensures that equipment is operationally ready for use by combat forces in Iraq, Afghanistan and other potential contingencies, and by forces that are training prior to deployment. Reset funding should match reset requirements and be provided in a timely manner at the beginning of each fiscal year to promote cost efficiencies and process effectiveness while ensuring the timely return of equipment to Soldiers to support training and future deployments. Even when fully funded, reset merely maintains equipment readiness so that it does not degrade further. It is not the final answer for improving overall Army equipment readiness, but it does effectively support the rapid return of equipment to a ready state for warfighting units.



### *Build a Modular Force with Joint and Expeditionary Capabilities*

The GWOT and the requirement to maintain a forward presence have created both the necessity and the opportunity to accelerate change from the current to the future force. The Army's conversion to a modular force, which is carefully balanced between the active components (AC) and the reserve component (RC), is well under way. Modularity will make the Army a more lethal, flexible, deployable and sustainable force. It also will allow the Army to shift its center of gravity from a strategy focused heavily on traditional challenges to one centered on the full spectrum of traditional, irregular, disruptive and catastrophic challenges.

The Army Modular Force reorganizes the operational Army into modular theater armies, theater support structures, corps and division headquarters, BCTs, and multi-functional and functional support brigades, all based on standardized organizational designs across the Army's three components. The intent of this transformation is to:

(1) Increase the number of available BCTs to meet operational requirements;

(2) Create brigade-size combat support and combat service support formations of common organizational designs; and

(3) Redesign organizations to perform as integral parts of the joint force, making them more effective across the range of military operations and enhancing their ability to contribute to joint, interagency and multinational efforts.

The Army is increasing its operational end strength in order to man the modular force. The Congress has authorized the Army to add a total of 74,200 spaces, growing the active component from 482,400 to 547,400, the ARNG from 350,000 to 358,200, and the USAR from 205,000 to 206,000.

As part of the modular conversion, the Army is rebalancing capability within and among its three components to provide a force capable of meeting current operational demands, and with the strategic depth to meet the security challenges of the future. The AC and RC rebalancing initiative is an incremental process and it continues to evolve. The major tenets of this initiative include:

(1) Increasing capabilities to relieve stress on units with persistent shortfalls;

(2) Elimination of demand for RC forces during the initial phase of an operational deployment; and

(3) Rebalancing structure to maximize readiness and rotational availability while preserving homeland defense and homeland security capabilities.

The Army also is re-designating military positions in the institutional force as civilian slots, where appropriate, freeing uniformed personnel for the operating force. Already, more than 7,200 Soldiers have been returned to the operational structure. In addition, the Army has been able to improve management of the individual Soldier assignment process and thereby ensure full manning of operational units and command posts.

Of the 43 active component maneuver brigades programmed for the end FY 2007, the Army had finished converting 35 to the modular design and was in the process of converting another four. The conversion process can take up to 12 months for an active component Heavy Brigade Combat Team and Infantry Brigade Combat Team, and as long as 24 months for a Stryker Brigade Combat Team.

The ARNG began transforming in FY 2005 with an accelerated plan allowing early reorganization, manning and training under the new BCT design. Transformation for an ARNG BCT can take as long as 48 months. At the end of FY 2007, the ARNG was in the process of transforming 24 BCTs. The ARNG will fully convert seven BCTs by the end of FY 2009 and will complete another seven by the end of FY 2010.

The overall transformation plan is on track to achieve a combined total of 76 BCTs: 48 in the active component and 28 in the ARNG. Initial transformation is for training, manning and organizing only; equipment transformation will be completed in FY 2015. Table 1 provides a summary of BCT transformation.

**Table 1. BCT Transformation Summary**

| | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| AC Transformed | 18 | 31 | 35 |
| ARNG Transformed | 0 | 0 | 0 |
| **Total Transformed*** | 18 | 31 | 35 |
| AC Transforming | 8 | 4 | 4 |
| ARNG Transforming | 7 | 16 | 24 |
| **Total Transforming**** | 15 | 20 | 28 |
| **Total Transformation** | 33 | 51 | 63 |

**Transformed means the unit has completed its initial reorganization and re-equipping to a modular design within resource constraints, is participating in the ARFORGEN process, and may be used against a requirement.*

*** Transforming means the unit is still undergoing initial reorganization and re-equipping to a modular design within resource constraints.*

### *Develop LandWarNet Operational Capabilities*

LandWarNet (Figure 5) is a capability-focused, orders-based system of systems that is derived from the Army's Battle Command and Global Information Grid. It is an integral part of the decision-support process, and enables information-based joint, interagency, multinational, civil defense, warfighting and support operations, regardless of Joint Operational Phase, operational urgency or the battle space circumstances of its authorized users. LandWarNet also provides warfighters the capability to "train as they fight" and is necessary to creating a global collaborative environment. In FY 2007, the Army fielded Warrior Information Network –Tactical Increment One to units deploying into operational theaters. The Army Battle Command System underwent interoperability testing prior to unit deployment. The Army also upgraded and deployed Fixed Regional Hub Nodes in the continental U.S. (CONUS), Southwest Asia and Europe, significantly enhancing satellite communications in support of deploying and deployed forces. The Army is accelerating the transition to Everything Over Internet Protocol. In FY 2007, the Army continued to work the integration of architectures for the Future Combat Systems network with projected communication spin-outs scheduled for delivery in FY 2010.

***"…the purpose of Army modernization and technological innovation is to maintain dominance in land operations in support of the National Military Strategy in an era of persistent conflict. The goal has not changed in 232 years. LandWarNet is central to changing how the Army fights - it seeks to integrate every element of Army modernization and seamlessly connect the Leader to the Soldier on the battlefield. And connect the soldier to the information he or she needs wherever and whenever he or she needs it."***

– The Honorable Pete Geren, Secretary of the Army



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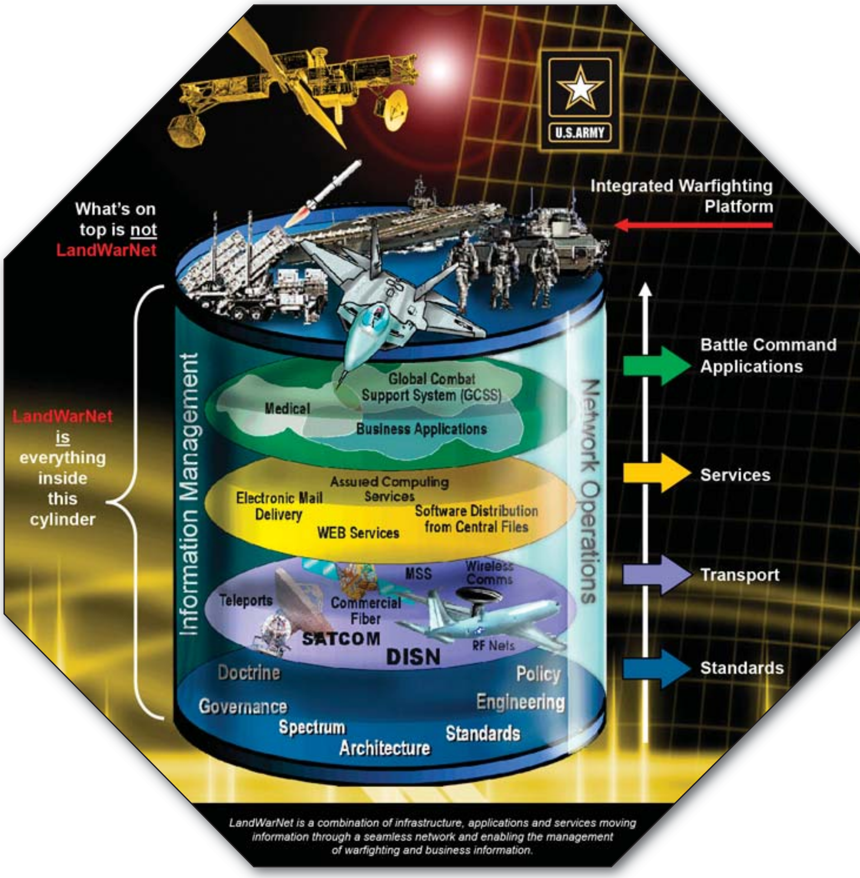
Figure 5.  LandWarNet



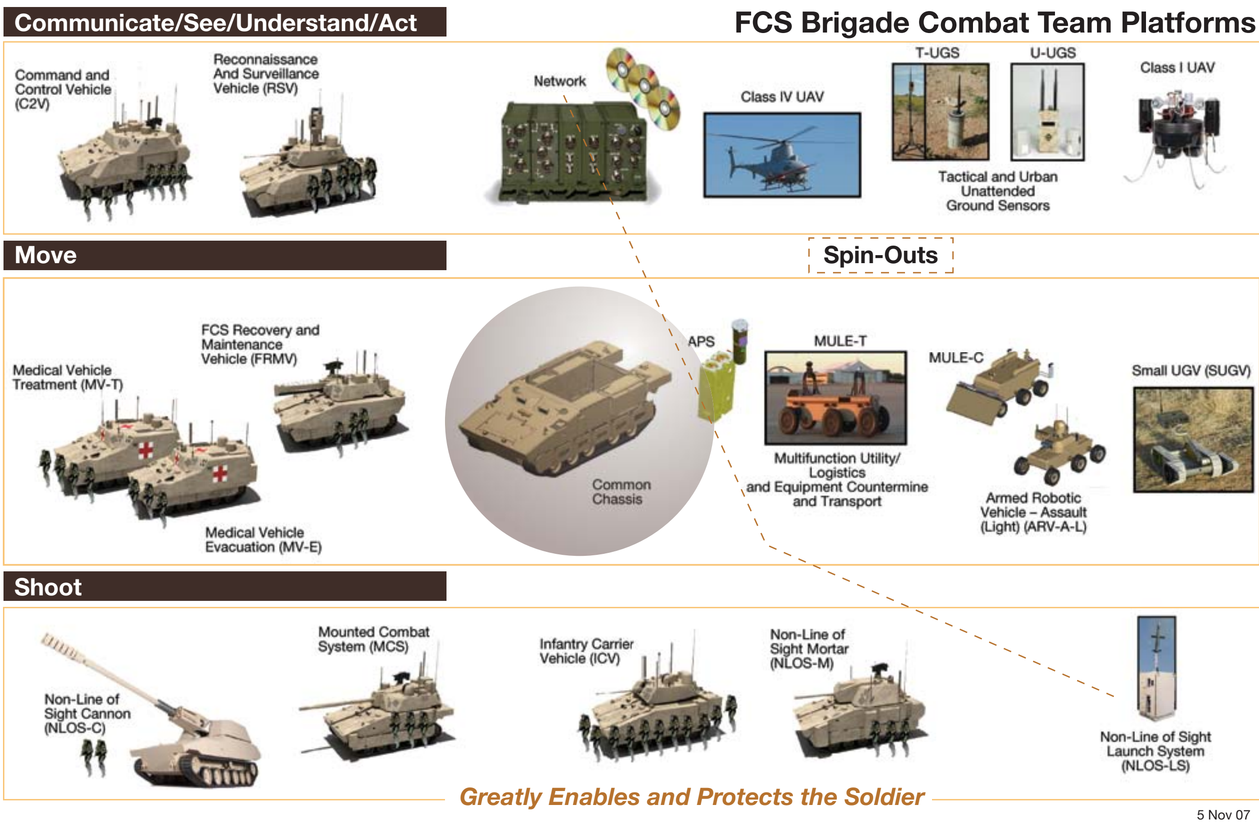

### *Execute Major Acquisition Programs*

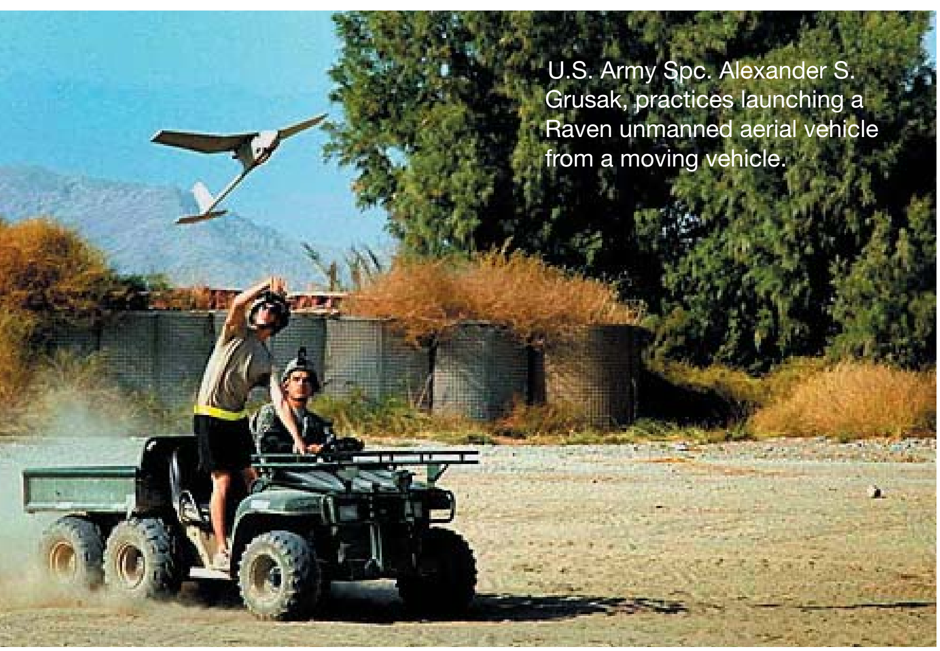
The Future Combat Systems (FCS) Brigade Combat Team program, the core of Army transformation and the first new family of combat vehicles in more than 40 years, is moving from concept to reality. The FCS BCT is specifically designed to improve Soldiers' situational awareness, protection and lethality. FCS is a system of systems, consisting of an advanced network and 14 individual platforms that will enable previously unknown levels of joint connectivity, situational awareness and understanding, and synchronized operations. The program is progressing on schedule, using a holistic acquisition approach, and is structured to field new capabilities as soon as they are ready; three distinct technology "spin outs" are planned for the current force.

***"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

Figure 6. FCS BCT



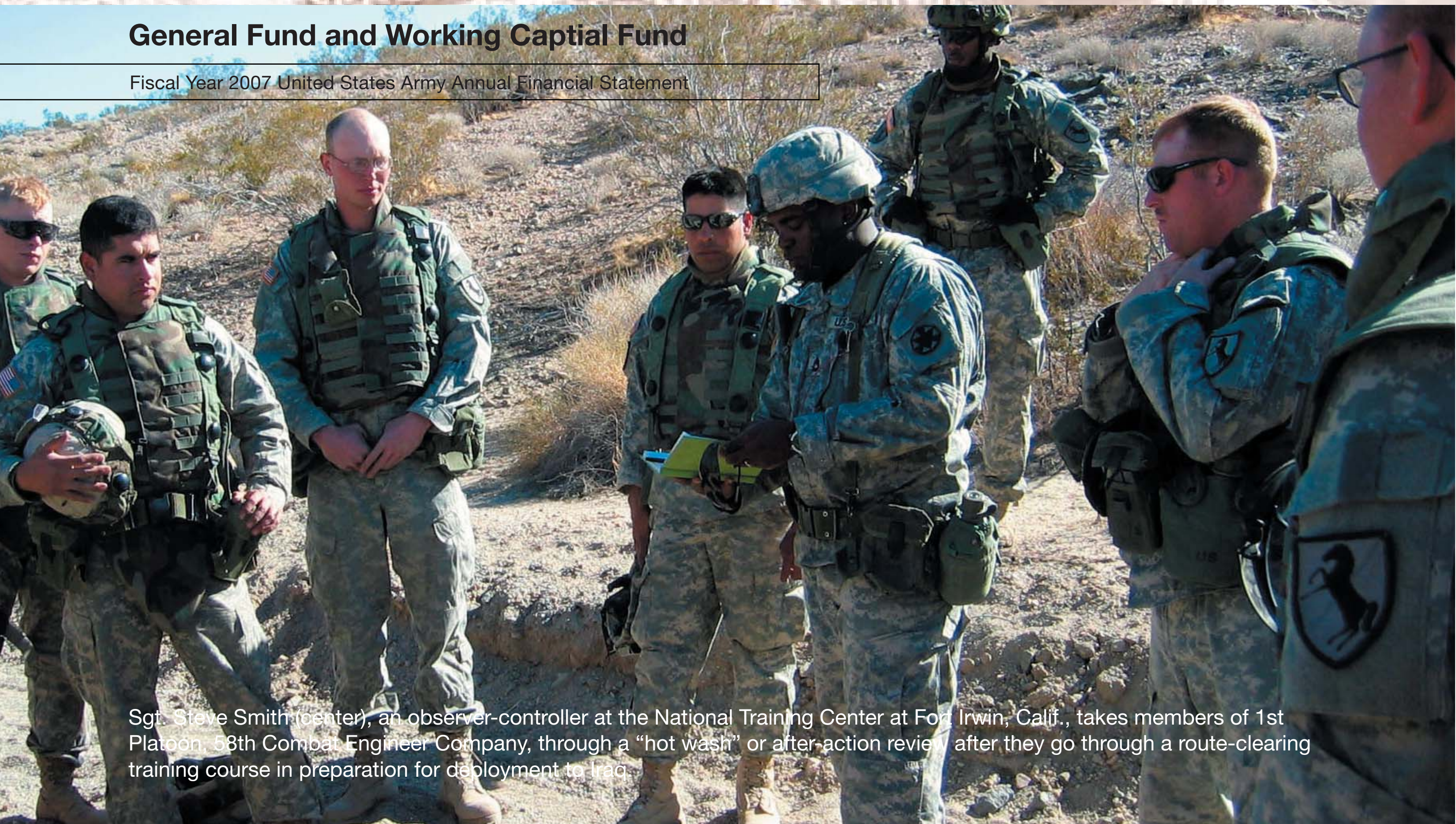




### *Restructure Army Aviation*

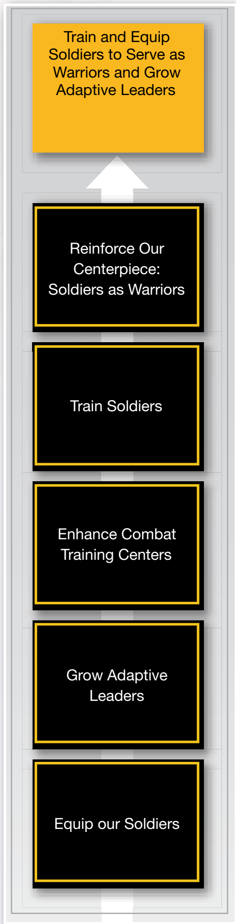
The Army continues to transform its aviation structure to develop modular, capabilities-based forces that are optimized to operate in a joint and expeditionary environment. Over the next six years, the Army plans to procure more than 1,000 new rotary and fixed-wing aircraft, using funds made available through termination of the Comanche program. The Army also will modernize aircraft sensors, execute safety and reliability modifications, and add aircraft survivability equipment. This effort will reduce maintenance costs, increase survivability and improve readiness rates. Key components of the aviation modernization plan include accelerating modernization of RC aviation and unmanned aerial vehicle programs, as well as pushing forward the development of a common cockpit for cargo and utility aircraft.

Table 2. Restructuring Army Aviation

| | FY 2006 Delivered | FY 2007 Goals | FY 2007 Delivered |
|---|---|---|---|
| # of Aircraft Reset (Mix of Operation Enduring Freedom and Operation Iraqi Freedom Returning Fixed/Rotary Wing Aircraft) | 547 | 526 | 526 |
| UH-60 Recapitalization | 25 | 20 | 27 |
| UH-60M Produced | 4 | 15 | 14 |
| MH-47G Produced | 16 | 5 | 4 |
| CH-47 Recapitalization | 2 | 3 | 3 |
| CH-47F Produced | 2 | 25 | 25 |
| AH-64 Recapitalization | 144 | 80 | 80 |
| AH-64D Produced (Wartime Replacements) | - | 13 | 13 |
| UH-72A Produced | - | 8 | 8 |
| Transformed Combat Aviation Brigades All Components | 11 | 7 | 7 |



Sgt. Steve Smith (center), an observer-controller at the National Training Center at Fort Irwin, Calif., takes members of 1st Platoon, 58th Combat Engineer Company, through a "hot wash" or after-action review after they go through a route-clearing training course in preparation for deployment to Iraq.




## Army Strategy – Train and Equip Soldiers to Serve as Warriors and Grow Adaptive Leaders

The initiatives in this overarching strategy include:

- Reinforce our centerpiece: Soldiers as warriors;
- Train Soldiers;
- Enhance the combat training centers;
- Grow adaptive leaders ; and
- Equip our Soldiers.

### *5.2.1 Reinforce Our Centerpiece: Soldiers as Warriors*

Soldiers are the centerpiece of the Army. No matter how much the tools of warfare improve; fundamentally it is the Soldier who must accomplish the mission. The Soldier always will remain the ultimate combination of sensor and shooter.

Mental and physical toughness underpin the beliefs embraced in the Soldier's Creed and must be developed within all Soldiers — without regard to their specialty, their unit or their location on the battlefield. In FY 2007, the Army continued to implement the additional rigor and relevance directed by the Chief of Staff's Warrior Ethos concept. The warrior ethos forms the foundation for the American Soldier's spirit and total commitment to victory, in peace and war, always exemplifying ethical behavior and 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.***

The warrior ethos centers on character: shaping who you are and what you do. In that sense, it clearly is linked to Army values. It requires unrelenting and consistent determination to do what is right and to do it with pride, both in uniform and out. Understanding what is right requires a Soldier to respect his or her comrades and other people.

The Army's continuing drive to be the best, to triumph over all adversity, and to remain focused on mission accomplishment does more than preserve the Army's institutional culture; it sustains our nation and each individual Soldier.

### *Train Soldiers*

The program of instruction in basic combat training increases the Soldier's warfighting capability through individual tasks and battle drills. Every six months, the Army modifies these tasks and drills to ensure that training is relevant to today's environment. Implementation of the Basic Officer Leader Course II began in FY 2007. This program has been very successful in focusing newly commissioned officers on critical warrior tasks.

It also brings together junior officers and warrant officers from various commissioning or appointment sources to share their experiences, knowledge and skills. The program's ultimate goal is to help improve the leadership skills of the least-experienced newly commissioned officers. Finally, the Army has vastly augmented its ability to conduct irregular warfare through several functional courses that build on language and cultural competencies and improve Soldiers' and civilians' knowledge of and capabilities in electronic warfare, red teaming (opposing forces), counterterrorism, weapons of mass destruction, civil affairs, information operations, counter-explosive hazards and operational law.

**Table 3. Individual Training**

| Interim | Basic Combat Training (BCT) | One Station Unit Training | Advanced Individual Training | Basic Officer Leader Course | Officer Candidate School | Warrant Officer Entry Course |
|---|---|---|---|---|---|---|
| 2007 Trained | 65,098 | 22,644 | 70,219 | 13,043 | 1,337 | 2,666 |

*NOTE: This represents active Army, ARNG and USAR students graduating from active component schools.*

**Train Soldiers – Train Units**

In FY 2007, the Army provided trained and ready forces to commanders around the globe while also meeting critical homeland defense missions. To make sure Soldiers were combat-ready in FY 2007, they engaged in an appropriate mix of live, virtual and constructive training. The AC and RC fully executed their ground and air training plans (Table 4), which included actual miles driven and hours flown as well as virtual miles associated with the use of simulators.

**Table 4. Ground and Air Operational Tempo (OPTEMPO) (Active)**

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 Goal | FY 2007 Actual |
|---|---|---|---|---|---|
| Ground OPTEMPO (Mileage) | 1,512 | 708 | 666 | 428 | 729 Mi. |
| Air OPTEMPO (Flight Hours) | 17.4 | 12.2 | 12.6 | 11.1 | 12.8 Hrs. |

*NOTE: FY 2004 execution includes home-station and contingency-operation execution as reported by Army units using Standard Army Management Information Systems (prior to FY 2005 the system was unable to separate home-station from contingency-operation execution). FY 2005 through FY 2007 reflects home-station execution only. FY 2007 amounts are estimates based on execution as of August 2007.*

**Train Soldiers – Training Support Systems**

The Army's Training Support Systems (TSS) enable the execution of training at home stations, the combat training centers, and at Training and Doctrine Command schools by creating realistic conditions that reflect the contemporary operating environment. These critical training enablers include ranges and targets, live-virtual-constructive training aids, devices, simulations and simulators, instrumentation systems, training facilities and training support operations.

TSS is adapting to support the ARFORGEN training requirements and lessons learned from current operations. Home-station training must provide the capability to train Soldiers, leaders and units across the full spectrum of conflict under realistic conditions. Ranges are being modernized to integrate digital systems that allow crews and platoons to train as they fight. New ranges are being built to support Stryker gunnery requirements, and Combined Arms Collective Training Facilities are being constructed and fielded to provide units a complex urban-area training capability. This live training environment will be further enhanced with a Home Station Instrumentation Training System that links ranges, urban complexes and training areas.

New and improved live-virtual-constructive training aids, devices, simulations and simulators are being fielded to augment training against improvised explosive devices (IEDs). Virtual simulators, IED simulators, gaming simulations and convoy live-fire exercises provide a complete package to train battle drills, tactical techniques and procedures, and to increase IED situational awareness.

The Army also is modernizing the Battle Command Training Centers (BCTCs) and training simulations to increase leader and battle-staff training and to improve the mission rehearsal capabilities for deploying units. The BCTCs provide units the ability to train and to sustain critical individual/operator and battle-staff skills on digital command, control, communications, computer, intelligence, surveillance and reconnaissance systems. The BCTCs also will network with other installations and simulations to support joint training exercises.

Army training modernization must continue to keep pace with equipment modernization and Army transformation in order to meet expeditionary readiness requirements.

Recruits go on patrol during basic training at Fort Jackson, S.C.

### *Enhance Combat Training Centers*

In FY 2007, the Army conducted 24 active component BCT rotations. The Combat Training Centers (CTCs) provide realistic joint and combined-arms training that approximates actual combat according to Army and joint doctrine. The CTCs are at the core of the Army's collective training strategy and have dedicated resources beyond those available at home-station training sites. Training is specifically tailored to prepare units for the conditions in the combat zones to which they will deploy. While the CTCs have retained the capability for high-intensity unit training needed for other potential theaters of war and the new modular brigades, the current focus is counter-insurgency operations and lessons from combat in Iraq and Afghanistan. The training environment emphasizes rapid change and adaptation to current activities, and uses improved facilities, civilians on the battlefield and realistic scenarios. The complex, event-driven scenarios challenge the BCT to execute multiple, simultaneous missions that include integrated enablers from the Army and the joint community.

### *Grow Adaptive Leaders*

The contemporary operational environment (COE) has proven that leaders must possess skills beyond those of pure tactical war fighting. The COE demands leaders who have developed non-lethal skills in such disciplines as irregular warfare, information operations, negotiation, cultural awareness, stability and reconstruction operations and basic foreign language abilities. The Army will:

(1) Incorporate cultural awareness training and education into all levels of Professional Military Education (PME);

(2) Develop expertise in irregular warfare operations for Soldiers and leaders from the tactical to strategic level; and

(3) Encourage language and cultural training and education throughout the Army – in schools, through self-development, online and in training at CTCs.

Due to the current high operational demand, many of our leaders have missed the opportunity to attend their PME at the optimal time in their career; thus, the Army has a large backlog at certain levels. As mission requirements change, the Army expects the demand for training to increase, with more leaders attending PME courses.

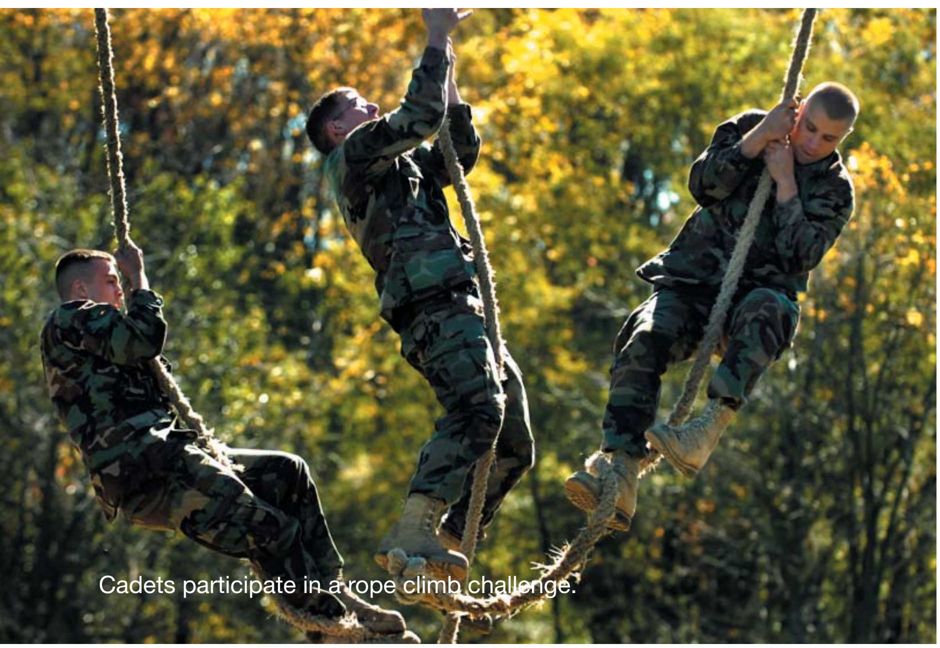
**Table 5. Professional Development (AC Schools Only)**

| | Warrior Leader Course | Basic NCO Course | Advanced NCO Course | Sergeants Major Course | Intermediate Level Education | Senior Service College |
|---|---|---|---|---|---|---|
| 2007 Trained | 25,119 | 9,609 | 8,695 | 1,331 | 531 | 1,282 |

*NOTE: This represents active Army, USAR and ARNG students graduating from active component schools. The Sergeants Major Course number includes 596 graduates from the FY 2006 resident class as the FY 2007 resident Sergeants Major Course does not graduate until May 2008. The Senior Service College number includes 834 for resident and non-resident for FY 2007 and 448 non-residents for FY 2008.*

***"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


Cadets participate in a rope climb challenge.

The Civilian Education System (CES) will meet the Secretary of the Army's mandate that leaders of tomorrow be "adaptable and multi-skilled". This requires a new paradigm and a centralized development program for training and educating our future leaders, "who will serve in both operational and institutional capacities in order to operate, and win, in this new environment."

The Army is keenly aware of the valuable contributions of its Civilian Corps in supporting the National Military Strategy. Civilian leader development must "ensure that the Army provides training, education, and operational experiences to develop leader competencies and enhance capabilities of Army civilians in support of Soldiers, the Army, and the nation." To accomplish this, the Civilian Leader Development Program has been revamped into a training and education system – the CES – that is similar to the military leader development system.

The CES uses leadership competencies derived from those set by the Office of Personnel Management (OPM) and those identified by the Center for Army Leadership (CAL). These courses provide leader development training and education that support civilian leaders' career path requirements and professional development, and promote lifelong learning and self-development.

FY 2007 was a transition year for Army Civilian Leader Development, with implementation of the new training and education system in January 2007. Components from existing leader development courses were integrated with skill sets that addressed the OPM and CAL leadership competencies. These changes will produce adaptive, multi-skilled and innovative leaders who are proficient in all disciplines -- not just those disciplines in which they specialize.

### *Equip Our Soldiers*

Our Soldiers rely on and deserve the very best force protection and mission-essential equipment we can provide; and they play a large role in setting Army requirements. In 2002, Soldiers alerted the institutional Army to the pressing need for different systems and materiel more suited to the GWOT areas of operation and their conditions, such as desert and mountain terrain and climates, urban street fighting and sniper fire. Soldiers can also take credit for identifying requirements for new forms of protection, lighter-weight gear, and improved methods to carry water and ammunition.

The Rapid Fielding Initiative (RFI) was initiated to enhance warfighting capabilities by using commercial-off-the-shelf technology, rather than waiting for acquisition programs, to address Soldier requirements and shortfalls. To date, nearly one million Soldiers -- including approximately 225,000 in 2007 -- have benefited from the warfighting enhancements provided by RFI equipment. The Army is seeking to leverage this legacy of success by institutionalizing the RFI program. In November 2006, the Army Requirements and Resourcing Board directed that expeditionary units in the Army Force Generation (ARFORGEN) ready pool be the focus of future RFI efforts. In addition, the Army intends to shift resources to allow the transition from supplemental to programmed funds, which will ensure adequate and timely funding for continued procurement of RFI equipment in future fiscal years.

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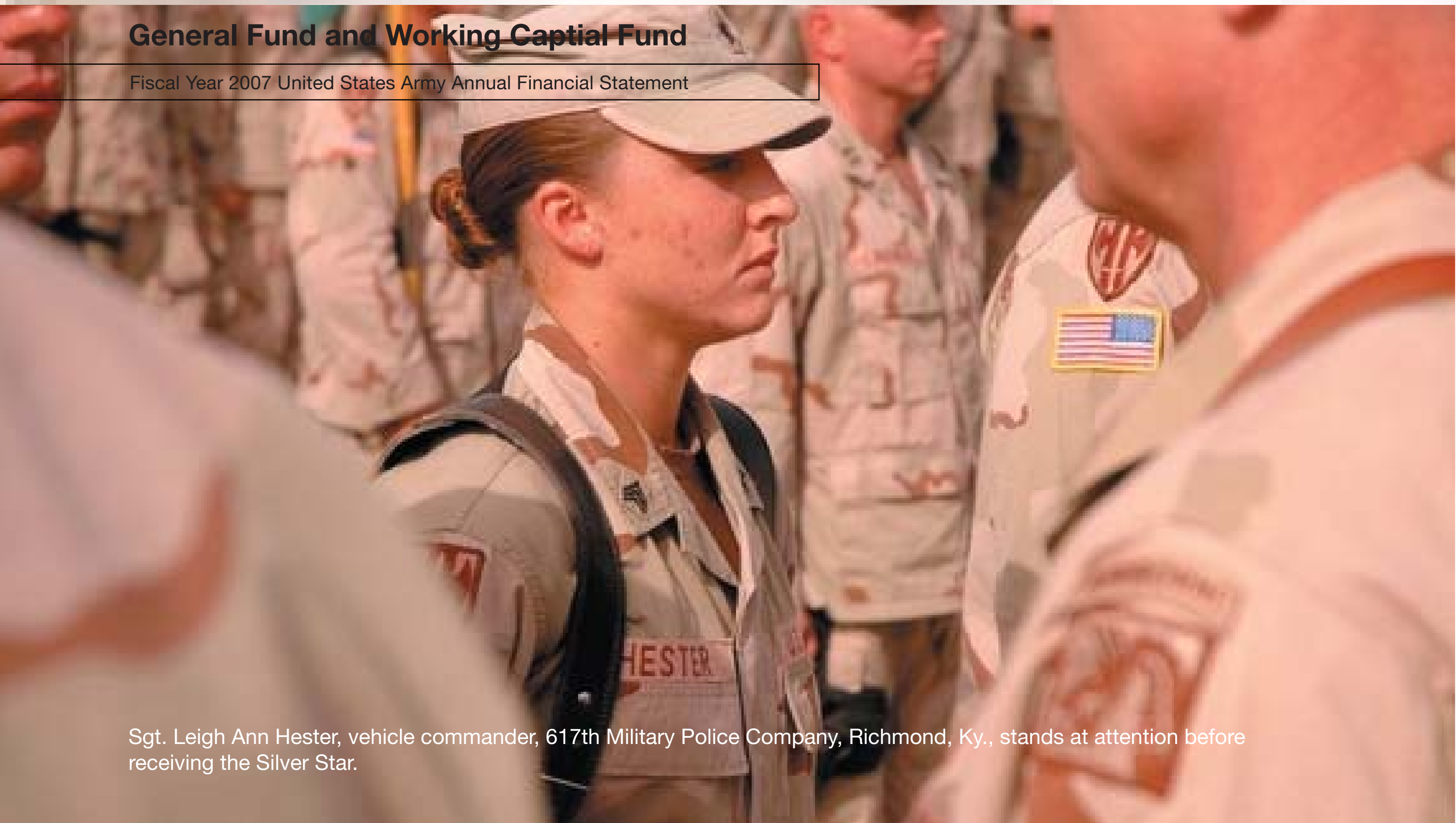
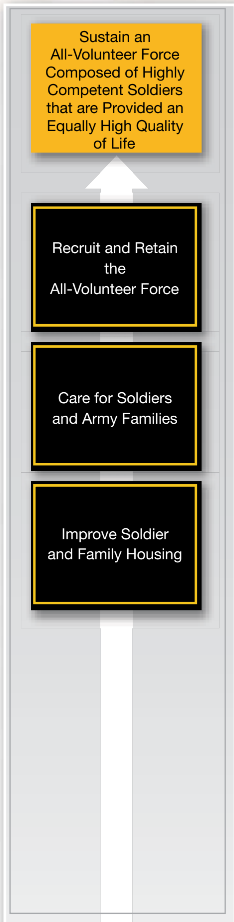



Sgt. Leigh Ann Hester, vehicle commander, 617th Military Police Company, Richmond, Ky., stands at attention before receiving the Silver Star.




## Army Strategy – Sustain an All-Volunteer Force Composed of Highly Competent Soldiers Who Are Provided an Equally High Quality of Life

The initiatives in this overarching strategy include:

- Recruit and retain the all-volunteer force;
- Care for Soldiers and Army Families; and
- Improve Soldier and Family housing.

### *Recruit and Retain the All-Volunteer Force*

While the recruiting environment is challenging, the Army remains committed to bringing only the very best into our ranks. Our goal was for holders of high school diplomas (HSDGs) to comprise no less than 90 percent of recruits. Typically, high school graduates are at lower risk for attrition and, therefore, are the most desirable group from which to draw. Although we achieved only 79 percent HSDGs in FY 2007, first-term attrition is declining and training base attrition is at an historic low -- both positive signs that we are recruiting, training and retaining a highly qualified force (Table 6).

**Table 6. Quality – Percent High School Diploma Graduates (HSDG)**

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|
| HSDG Goal | 90 | 90 | 90 | 90 |
| HSDG Actual | 92 | 87 | 81 | 79 |

The Army has continued to reshape aggressively recruiting resources for all components. Though FY 2007 was a challenging recruiting environment, the Army was able to meet its accession mission of 80,000 Soldiers. Several initiatives were implemented, such as the two-year enlistment option and an increased fourth-quarter quick-ship bonus, which helped the Army make its year-to-date mission. FY 2008 is also expected to be a challenging recruiting year and more incentives, such as Active First and the Army Advantage Fund, will be implemented to continue to attract high-quality recruits.

**Table 7. Recruiting**

| | FY 2004 Actual | FY 2005 Actual | FY 2006 Actual | FY 2007 Goal | FY 2007 Actual |
|---|---|---|---|---|---|
| Active Army | 77,587 | 73,373 | 80,635 | 80,000 | 80,407 |
| Army Reserve | 21,292 | 19,400 | 25,378 | 26,500 | 27,004 |
| Army National Guard | 49,210 | 50,219 | 69,042 | 65,115 | 66,652 |

Due to the GWOT, several special skills are in high demand. To fill them, it has been necessary to augment recruiting and retention incentives. For example, in FY 2007, the Army instituted a Critical Skills Retention and Accession Bonus (CSRB) to attract and to retain warrant officers in specific skills areas, including Special Forces, Criminal Investigations, Military Intelligence and Field Artillery. Further, medical-related CSRBs have been offered to physician's assistants and maxillofacial/oral surgeons.

**Table 8. Active Component End-Strength Within 2%**

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|
| Goal | 482,400 | 502,400 | 502,400 | 518,400 |
| Congressional Baseline | N/A | 512,400 | 512,400 | 518,400 |
| Actual | 499,543 | 492,728 | 505,402 | 522,017 |
| % Delta | +3.6% | -2.0% | +0.6% | +0.7% |

*Performance Measure: The number of Soldiers on active duty at the end of the year.*

**Table 9. Reserve (USAR and ARNG) End-Strength Within 2%**

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|---|
| Goal | 555,000 | 555,000 | 555,000 | 555,000 |
| Actual | 547,049 | 522,182 | 536,263 | 542,589 |
| % Delta | -1.4% | -5.9% | -3.4% | -2.3% |

*Performance Measure: The number of Soldiers in the USAR and ARNG at the end of the year.*

The Army has boosted reenlistment bonuses to a maximum of $40,000 for those in high-demand specialties. These programs have helped the Army to exceed its retention goal for FY 2007. Bonus structures that offer a commitment to Soldiers' Families and provide an excellent quality of life are being considered.

**Table 10. Active and Reserve Component Retention**

| | FY 2004 Actual | FY 2005 Actual | FY 2006 Actual | FY 2007 Goal | FY 2007 Actual |
|---|---|---|---|---|---|
| Active Army | 60,010 | 69,512 | 67,307 | 62,200 | 69,777 |
| Army Reserve | 16,330 | 16,485 | 18,223 | 16,571 | 19,761 |
| Army National Guard | 47,012 | 33,804 | 41,083 | 37,578 | 37,718 |

*Performance Measure: Measures the number of Soldiers reenlisted during a given FY against the published goals.*

Recruiting Soldiers who are confident, adaptive, competent and able to handle the full complexity of 21st century warfare in this combined, joint, expeditionary environment is a highly competitive endeavor. The Army will continue to develop and to implement programs to address this challenge.

### *Care for Soldiers and Army Families*

To retain Soldiers and meet the needs of their Families, the Army must care for them through exceptional well-being programs. The Army is committed to attaining a quality of life for our people that matches the quality of their service. To better fulfill this promise during war, we have initiated programs to improve spouse employment, to ease the transition of high school students during moves and to extend in-state college tuition rates to military Families. We continue to improve health care, child care, youth programs, schools and facilities. The Army also is concerned about our Soldiers' financial health and has continued a multiyear initiative to eliminate Soldiers' out-of-pocket housing expenses.

To improve unit cohesion and readiness while reducing unit turbulence and uncertainty for Families, the Army is changing how we man our units. Under Force Stabilization, the Army plans to keep Soldiers in each assignment longer and will synchronize their assignments to BCT rotational schedules. Stabilization will create more deployable, combat-capable units while improving predictability and quality of life for Soldiers and their Families. They, in turn, will be able to build deeper roots in their communities and will have better opportunities for spouse employment, continuity of health care and schooling, and access to stronger support networks that enhance well-being.


A Soldier hugs his Family at Giessen Army Depot, Germany, following his 14-month tour in Iraq.

### *Improve Soldier and Family Housing*

Housing programs are essential to demonstrating our concern for Soldiers and their Families. In concert with the private sector, the Army continues to focus considerable effort on the Residential Communities Initiative and the Barracks Modernization Program. Congressional support for these initiatives has had a dramatic effect on improving the quality of life for our Soldiers and their Families.

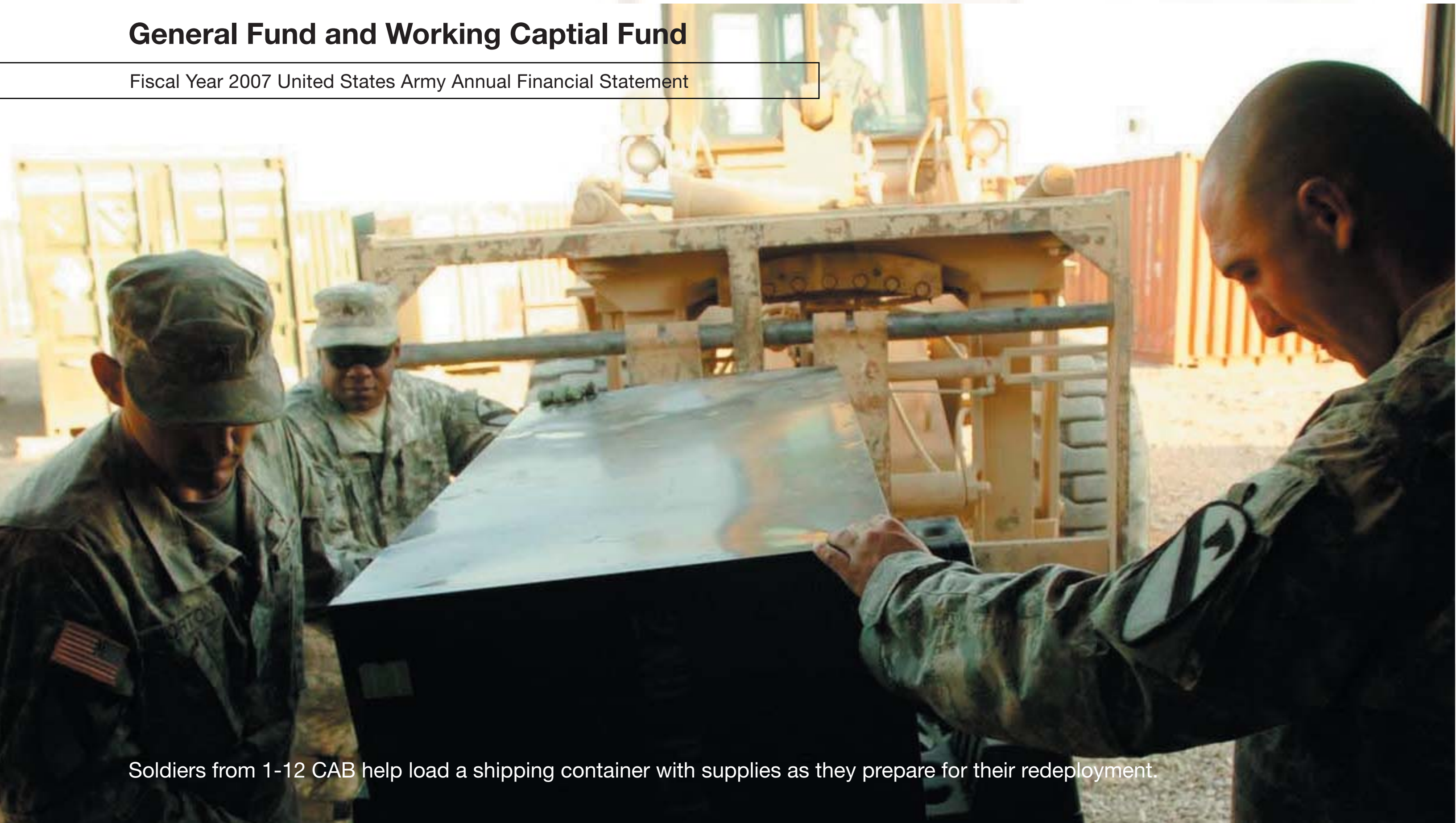
Our housing programs are on track to eliminate inadequate dependent housing worldwide by FY 2009, through privatization, construction and divestiture of units. In FY 2007, we privatized 4,250 homes, bringing the total to 75,700, and renovated or replaced an additional 1,584 homes using conventionally appropriated funds.

The Army's permanent-party, single-Soldier barracks spaces requirement is 134,500. In FY 2007, the Army built or modernized 11,800 barracks spaces for about $1.2 billion, bringing the total spaces built or modernized to 72 percent of the Army's requirement.

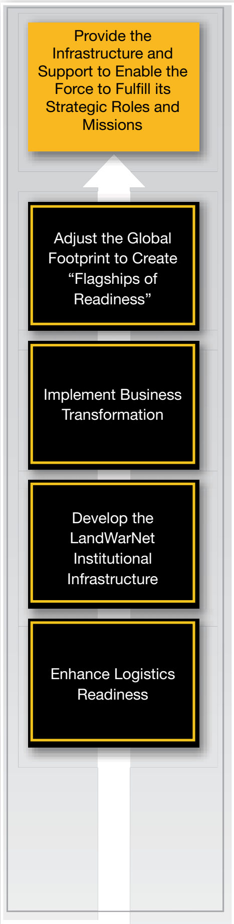
The Army has a training requirement of 87,800 Soldiers but only 74,467 available barracks spaces. Installation Status Report ratings for almost all training barracks showed facility condition deficiencies that impair the capability or present significant obstacles to the tenant organizations' accomplishment of required missions. In FY 2008, the Army will build or modernize 8,408 spaces for $757 million which supports the barracks upgrade program, grow the Army, and Base Realignment and Closure.

The First Sergeant Barracks Initiative (FSBI) is being implemented across the Army and will provide centralized barracks management, similar to Family Housing management, for single Soldiers. FSBI will encompass all aspects of asset management, to include Housing Operations Management System software modules designed specifically for barracks management.

The Army also is executing limited Unaccompanied Personnel Housing privatization projects for staff sergeants and above at Forts Irwin, Drum, Bragg, Bliss and Stewart. Together, these facilities will provide 1,340 spaces in areas that have limited available rental properties for these grades.



Soldiers from 1-12 CAB help load a shipping container with supplies as they prepare for their redeployment.




## Army Strategy: Provide the Infrastructure and Support to Enable the Force to Fulfill Its Strategic Roles and Missions

The initiatives in this overarching strategy include:

- Adjust the global footprint to create "Flagships of Readiness";
- Implement business transformation initiatives;
- Develop LandWarNet institutional infrastructure; and
- Enhance logistics readiness.

### *Adjust Global Footprint to Create "Flagships of Readiness"*

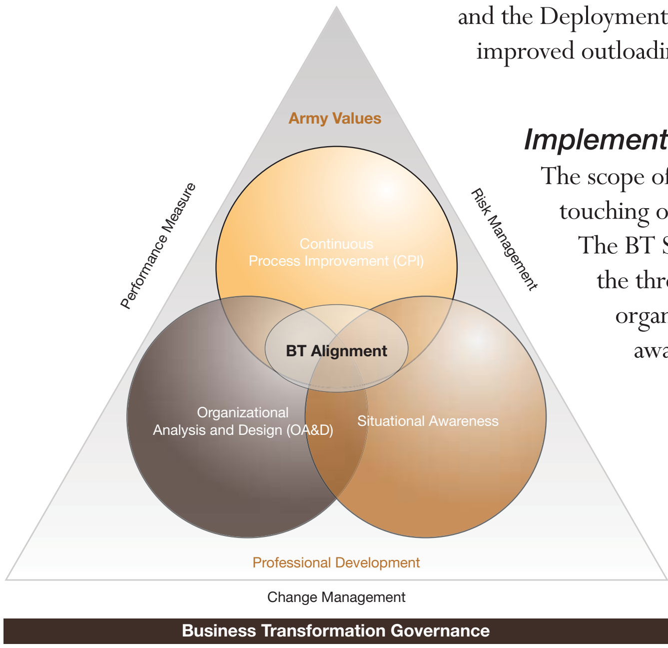
For FY 2007, five deployment infrastructure projects were executed to support the "Flagships of Readiness" concept. These projects improved the outloading, processing and shipping of vehicles, ammunition and other cargo.

Ammunition outloading improvements included a block and brace facility at Blue Grass Army Depot, an ammunition supply point upgrade at Fort Richardson and a fabrication facility at McAlester Army Ammunition Plant. The block and brace facility will fabricate boxes, crates and bracing material to secure ammunition in military vans for safe shipment. The contract has been let for this facility and construction will begin in FY 2008, with a projected completion date of July 2008. Some site work has already been finished in preparation for construction. The ammunition supply point at Fort Richardson will provide a covered structure for uploading and staging tactical vehicles for ammunition transfer, weighing, processing and documentation checks. This contract was awarded in June 2007 and is scheduled for completion in December 2008. The fabrication facility at McAlester Army Ammunition Plant will be used for preparing dunnage for the blocking and bracing of ammunition in container shipments. At this juncture, about 5 percent of the construction has been finished; the estimated completion date is June 2008.

Also in FY 2007, the Army proceeded with phase II construction of the Arrival/Departure Air Control Group (ADACG) complex at Fort Carson. Whereas phase I mainly consisted of site preparation, during phase II, the arrival/departure operations facility, including administrative, crew rest, conference, mess and troop holding areas, will be built. The ADACG also will process pallets and vehicles for air deployment. The Fort Carson ADACG design has been finished and the project has been awarded. Construction will begin in FY 2008, with completion targeted for August 2008.

The Army also pursued center wharf expansion at Sunny Point Military Ocean Terminal (MOTSU). This project upgrades and expands the current center wharf at MOTSU for the purpose of accommodating the simultaneous loading of two 900-foot container ships. Currently, MOTSU can handle only one container ship at the south wharf, and large ships must be turned around as only 700 feet of the south wharf can be used for container loading. Project design has been finished and the contract awarded. Construction is expected to start in January 2008, with an estimated completion date of January 2010.

Three other deployment infrastructure projects were added and authorized by the Congress in FY 2007, though no funds were appropriated: the Vehicle Inspection/Cargo Processing Facility for Fort Riley, the Port Staging Facility for Letterkenny Army Depot




and the Deployment Staging Area for Fort Lee. These projects would have improved outloading and processing efficiency.

### *Implement Business Transformation (BT) Initiatives*

The scope of business transformation efforts is immense, literally touching or impacting everyone in and every facet of the Army. The BT Strategic Framework, illustrated on this page, depicts the three focus areas: continuous process improvement (CPI), organizational analysis and design (OA&D) and situational awareness.

The Army chose Lean Six Sigma (LSS) as its CPI methodology. Lean focuses on removing waste while Six Sigma is about reducing variation and producing a consistently reliable product, thereby increasing quality. The Army selected LSS because its methodology is applicable to the vast majority of Army process improvement opportunities. LSS also provides a common business lexicon that both increases the business acumen of the workforce and creates a common framework in which to discuss, report and approach process improvement. This commonality is critical to leveraging and replicating work done by one individual or an entire organization.

The Army is working aggressively to institutionalize LSS to ensure a culture of continuous improvement. In FY 2007, the first Army LSS Master Black Belt course graduated the initial cadre, which will enable the Army to create a self-generating LSS capability and thereby begin to decrease, and eventually remove, reliance on external support for LSS. The Army also trained more than 500 Black Belts and 1,600 Green Belts, who are executing thousands of projects in vital areas that need to be reformed, such as force generation, health care and operational capabilities.

OA&D is designed to identify and to fix typical organizational pathologies: ill-defined roles and accountability, excessive overhead and permanent "temporary" task forces. OA&D looks at organizations from the customer's viewpoint, with an understanding that real organizational change and reform needs to be catalyzed by external evaluation. OA&D efforts started right outside the Secretary of the Army's and the Chief of Staff's doors with the Office of the Administrative Assistant and the Office of the Director of the Army Staff, then moved on to the Installation Management Command (IMCOM).



### *Develop the LandWarNet Institutional Infrastructure*

The objective of transformation for the institutional Army is to achieve joint, standardized data collection processes, effective communication linkages and efficient information sharing among stakeholders. The Installation Information Infrastructure Modernization Program is providing necessary infrastructure upgrades, with the goal of making Army installations "docking stations" that allow Soldiers to train as they will fight with the same equipment and capabilities in garrison as they use during operational deployments. In FY 2007, the Army improved information technology infrastructure at 34 installations and refreshed six additional installations that previously had been upgraded. The Army continued to implement its defense-in-depth strategy through networthiness certification and authorization. The Army also implemented transformation plans for mission areas and domains as part of the Army IT portfolio management process.

Army Knowledge On-Line, the Army enterprise portal and the "best of breed" portal in the DoD, began transitioning to become the foundation for Defense Knowledge On-Line.

### *Enhance Logistics Readiness*

The dominant objective of the sustainment function is to ensure the readiness of the force, whether in peacetime or during persistent conflict. The Army remains focused on implementing the modular force logistics concept as part of transformation. The logistics community currently is focused on achieving three strategic goals:

- Maintain a 360-degree enterprise view of unit and equipment readiness;
- Complete logistics transformation; and
- Implement the logistics domain architecture.

**Figure 7. Army G-4 Vision**




The Army has changed the way it views readiness. High demand for Army forces, at home and abroad, compounded by longstanding deficits in equipment, modernization and infrastructure investment, place future readiness at risk. In order to maintain a 360-degree view of readiness, the Army has significantly improved accountability and availability of materiel. Through Operation Total Recall, we have gained visibility of 3.4 billion items worth $230 billion, ensuring that the right materiel is delivered to the right place at the right time.

Accomplishing logistics IT transformation objectives is paramount to modernizing the force and supporting the warfighter. The Army also must ensure that logistics information systems seamlessly interoperate with associated systems in other functional areas, such as finance, personnel, medical, transportation and command/control. The Army has a threetiered strategy: 1) continue support to legacy systems still in the field; 2) replace as required these legacy systems with modernized bridging systems; and 3) implement Enterprise Resource Planning solutions, such as the Single Army Logistics Enterprise Logistics Modernization Program, Global Combat Support System – Army and Product Lifecycle Management Plus.

Together, these initiatives will provide more effective support for our Soldiers on the front lines of the GWOT, put our logistics management practices in line with world-class businesses and give us the tools we need to manage one of the most valuable, complex logistics systems in the world.

Logistics transformation includes refining doctrine and organizational designs; implementing effective life cycle management of weapons systems and equipment to increase integration of the development, acquisition, production, fielding, sustainment and retirement of systems; and improving business processes and systems. In FY 2007, Army logistics transformation accomplishments included:

- **Implementing a Joint Concept of Support.** The Army is building Joint-Capable Commands that can operate as the single logistics command and control headquarters in a joint theater of operations.
- **Army Equipment Loss Lean Six Sigma Project.** The Army initiated an LSS effort to improve the accuracy and timeliness of reporting validated battle losses to the Army. This project will standardize definitions and loss reporting processes, reduce reporting timeframes, improve accountability, and create a common operating picture of Army equipment losses.
- **Munitions RESET LSS.** The Army initiated an LSS effort for unserviceable munitions in Iraq, focusing on three areas: 1) fixing unserviceable munitions as far forward as possible; 2) returning munitions to CONUS in depot packs; and 3) demilitarizing unserviceable munitions as far forward as possible. The goal of the munitions RESET LSS initiative is to return unserviceable munitions back to the inventory quickly.
- **Joint Precision Airdrop System.** The Army deployed a new Joint Precision Airdrop System (JPADS) to reduce the number of cargo trucks on the road and thereby limit Soldiers' exposure to enemy IEDs and fire. JPADS is a high-altitude-capable, guided, "smart" airdrop system that provides better controlled release from the aircraft, improving delivery precision and minimizing ground dispersion. This compact system includes a mission planner laptop with precision airdrop software applications, a meteorology data gathering kit and GPS capability.
- **Low-Cost Low-Altitude (LCLA) Aerial Resupply.** LCLA provides the warfighter an immediately responsive aerial resupply capability to distribute small, tailored support packages to units operating substantial distances from theater or forward operating bases in remote, austere, and hard-to-reach locations with very limited or no materiel handling equipment and no viable airstrips.
- **Logistics Transformation.** The Army has redesigned and activated three of four new Theater Sustainment Commands and five Expeditionary Sustainment Commands. As part of this transformation, Army Materiel Command activated the Army Sustainment Command and Army Field Support Brigades to serve as the links to the field for integration and synchronization of acquisition, logistics and technology support.

## Conclusion

The Army is involved in a difficult but essential transformation. We are simultaneously and significantly increasing our permanent end strength, accelerating formation of new BCTs, converting the remaining legacy force to modular designs, modernizing equipment, including fielding improved weapons systems, and carrying out the most significant restationing in decades. To support these efforts, the Army's financial managers are balancing resources among a myriad of competing but critical demands. Clearly, the challenges we face are significant. The degree of difficulty has increased as a result of the requirement for our financial managers to develop and execute simultaneously the largest budgets in the Army's history while at war.

Implementing the Chief of Staff's four imperatives and bringing the Army back into balance will take several years, considerable resources and the sustained support of the Congress and the American people.

**First imperative – Sustain.** The Army must improve the manner in which we sustain our Soldiers, Families and civilians. We must ensure that our Soldiers are physically tough and live the warrior ethos. We need to continue to care for their Families, who share the burden of their commitment and their service.

**Second imperative – Prepare.** We need to prepare our forces for success in the current and future conflicts. The Army is continually adapting training and equipment to keep pace with an evolving enemy. We remain committed to providing our deploying Soldiers with the best available, so that they can maintain a technological advantage over any enemy they may face.

**Third imperative – Reset.** The Army must continue to reset units in order to rebuild readiness and to prepare them for future deployments and contingencies. Since FY 2003, equipment has been used at unprecedented rates in harsh and demanding desert and mountain environments. In addition to fixing, replacing and upgrading our equipment, and retraining for future missions, we also must revitalize our Soldiers and Families by providing them the time and the opportunity to recover from the cumulative effects of sustained operations.

**Fourth imperative –Transform.** We must continue to transform our Army to meet the demands of the 21st century. Transformation is a holistic effort to adapt how we fight, train, modernize, develop leaders, base our forces and support our Soldiers, Families and civilians. Transformation is a journey, not a destination.

# Analysis of Financial Statements and Stewardship Information

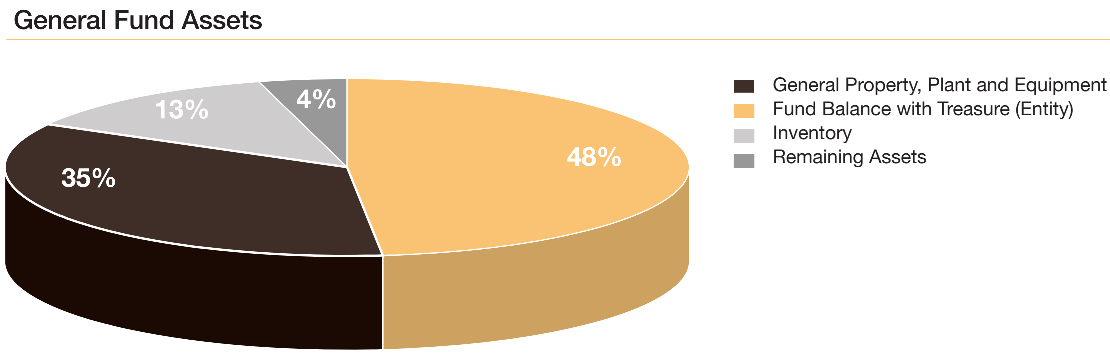
As discussed in the accompanying independent auditor's report, longstanding financial management challenges prevent the Army's producing auditable financial statements for the Army General Fund and the Army Working Capital Fund. The Army, however, continues to work with DoD to develop sustainable business practices and enhanced internal controls that will improve financial management processes and produce quality financial management information. These processes must be supported by compliant business systems and an effective set of management controls.

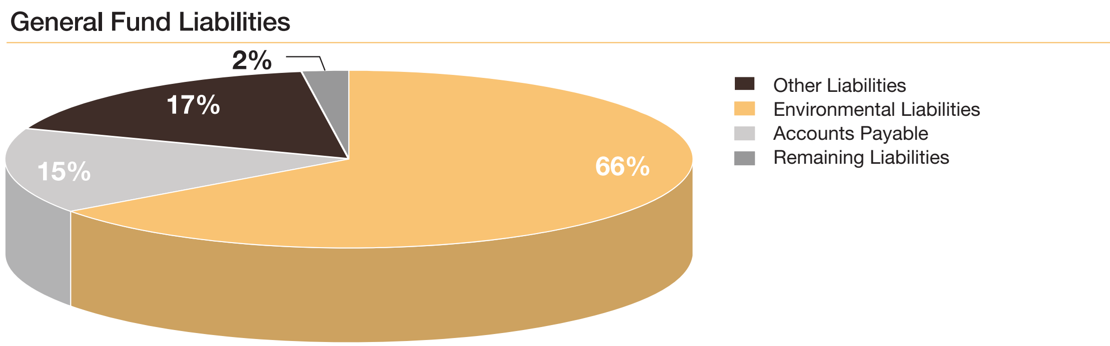
## General Fund Financial Results and Balance Sheet

The Army General Fund balance sheet includes total assets that exceed $263 billion. Two asset categories, Fund Balance with Treasury and General Property, Plant and Equipment (GPP&E), comprise 83 percent of total assets, with values of $127.3 billion and $90.7 billion, respectively.

Liabilities primarily consist of $45.7 billion in Environmental Liabilities and $10.8 billion in Accounts Payable.

**Figure 8. Composition of General Fund Assets and Liabilities**




Fund Balance with Treasury grew by $32.9 billion in FY 2007 due to an increase in Army appropriations received for GWOT requirements. GPP&E increased $6.7 billion due to military equipment increases for Abrams Modifications, Bradley Sustainment, High Mobility Multipurpose Wheeled Vehicles and general equipment increases associated with Operation Total Recall, which reestablished property accountability.

**Figure 9. Select General Fund Assets and Liabilities**

General Fund

*$ in billions*

| Asset Type | FY 2007 | FY 2006 | Change | Percentage of FY 2007 Assets |
|---|---|---|---|---|
| Fund Balance with Treasury (Entity) | $127.3 | $94.4 | $32.9 | 48% |
| General Property, Plant and Equipment | 91.0 | 84.2 | 6.7 | 35% |
| Inventory | 33.9 | 38.6 | (4.7) | 13% |
| Remaining Assets | 11.0 | 9.3 | 1.7 | 4% |
| **Total Assets** | $63.2 | $226.6 | $36.6 | 100% |

| Liability Type | FY 2007 | FY 2006 | Change | Percentage of FY 2007 Liabilities |
|---|---|---|---|---|
| Environmental Liabilities | $45.7 | $45.0 | $0.7 | 66% |
| Accounts Payable | 10.8 | 12.5 | (1.6) | 15% |
| Other Liabilities | 12.2 | 11.3 | 0.8 | 17% |
| Remaining Liabilities | 1.5 | 1.5 | 0.0 | 2% |
| **Total Liabilities** | $70.2 | $70.3 | $(0.0) | 100% |

*Amounts may not sum due to rounding.*

## Army Working Capital Fund Financial Results

The primary mission of Army Working Capital Fund (AWCF) activities is to help the Army maintain constant readiness by providing supplies, equipment and ordnance necessary to support the projection and sustainment of forces in the most efficient and cost-effective manner possible. In carrying out this mission, AWCF activities are obligated to control and to reduce costs. The AWCF measures financial performance through three primary means, cash, carry-over and net and accumulated operating results, and operational performance through two primary means, stock availability and production through-put.

**Table 11. AWCF Cash ($ in millions)**

| | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| Collections | $14,383.6 | $14,512.8 | $15,738.9 |
| Disbursements | 14,708.7 | 14,260.8 | 14,335.0 |
| Net Outlays | $325.1 | $(252.0) | $(1,403.8) |
| Cash Balance | $623.3 | $875.3 | $2,279.1 |

### *Cash Management*

The ability to generate cash is dependent on setting rates to recover full costs, including any previous-year losses, accurately projecting workload and meeting established operational goals. Unlike the private sector, the Army does not have lines of credit. Therefore, it must maintain sufficient cash on hand in the AWCF account at the U.S. Treasury to pay liabilities when due. To minimize the cash balance required for operating and capital disbursements, the AWCF projects collections and disbursements on a monthly basis to ensure sufficient funds are available.

The AWCF ended FY 2007 with a cash balance of $2.28 billion, $1.65 billion above the required seven-to-10-day level of $634.0 million. The AWCF cash balance should return to a level closer to its corpus requirement when operations in Iraq and Afghanistan begin to decline and payments associated with the delivery of replacement stocks and repair of equipment are made at levels higher than inventory sales.

### Carryover

Work carried over from one fiscal year to the next, provides continuity for the industrial workforce. In FY 2007 we expect actual carryover to exceed allowable carryover. This is due largely to the delay in troops returning from operations in Iraq and Afghanistan, which postponed the arrival of many major end items of equipment; late receipt of supplemental funding driving late receipt of orders from Army and other services; and schedule slippages caused by non-availability of certain parts.

**Table 12. AWCF Carryover ($ in millions)**

| | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| New Orders | 4,517.6 | 5,425.2 | 6,850.3 |
| Carryover Ceiling | 1,705.6 | 2,115.1 | * |
| Carryover | 1,394.1 | 2,141.3 | * |

** Amounts not available at time of printing.*

### Net and Accumulated Operating Results

Net Operating Results (NOR) represent the difference between costs and revenues in an accounting period. Accumulated Operating Results (AOR) represent the aggregate of all recoverable net earnings, including prior-year adjustments, since inception of the activity. The goal of the AWCF is to break even over time. An activity group's financial performance is measured by comparing actual results to the goal of breaking even over time. Future rates in the Industrial Operations and Supply Management activity groups will be set to return the positive AOR.

**Table 13. Net Operating Results and Accumulated Operating Results by Activity Group**

| | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| Industrial Operations NOR | 191.9 | (209.3) | (117.7) |
| Industrial Operatons AOR* | 647.1 | 437.8 | 324.7 |
| Supply Management NOR | (71.4) | 5.5 | 508.4 |
| Supply Management AOR | (42.2) | (36.7) | 471.7 |

** Includes prior year AOR adjustments.*

### Stock Availability

Stock availability measures the percentage of requisitions for stocked items completely filled within established timeframes. The DoD and the Army have set a target of 85 percent stock availability. Stock availability has continued to improve from 1st Quarter FY 2005 level of 76% to an estimated level 89% in 4th Quarter, FY 2007. The high level of OPTEMPO in support of Operations Iraqi Freedom and Enduring Freedom and the high level of reset requires the current level of stock availability

**Table 14. Stock Availability (percentage)**

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| FY 2005 | 76% | 78% | 82% | 79% |
| FY 2006 | 85% | 86% | 84% | 85% |
| FY 2007 | 84% | 87% | 87% | 89% |

** Estimated because actuals were not available at the time of publication.*

### Production

Although the Industrial Operations activity group is comprised of an array of installation activities, the preponderance of workload relates to depot maintenance. Major operations in Iraq and Afghanistan are placing tremendous demands on equipment. As a result of higher operating tempo, rough desert environments and limited depot maintenance available in theater, operational fleets are aging at a far greater pace than expected. To counter this, the Army established a reset program designed to reverse the effects of combat stress on equipment and to prepare equipment for future missions. Of the $17.1 billion appropriated by Congress for this purpose $2.9 billion in reset orders were received by the Industrial Operations activity group.

A key component of the reset program is the recapitalization of equipment. Through recapitalization, depots replace and/or upgrade numerous component parts, which support the Army's conversion to modular formations, a key element of transformation.

The Army's depots and their efforts to partner with industry are critical to the entire reset effort. The Army estimates it will take close to two years after the return of forces from Iraq and Afghanistan to completely reconstitute equipment. Due to actions taken in support of wartime requirements, the Industrial Operations activity group has dramatically increased depot production over pre-war levels, as illustrated below:

**Table 15. Annual Production Through-put***

| | Pre-War | FY 2006 | FY 2007 |
|---|---|---|---|
| Depot Aircraft | 4 | 46 | 66 |
| Helicopter Engines | <200 | >700 | >750 |
| Bradleys | 144 | 600 | >850 |
| HMMWVs | <100 | 7,398 | 9,344 |
| Machine Guns | 14,000 | 14,256 | 11,315 |
| Firefinders Radars | <1 | 57 | 49 |
| Track Shoes | 120,000 | 400,000 | 141,000 |

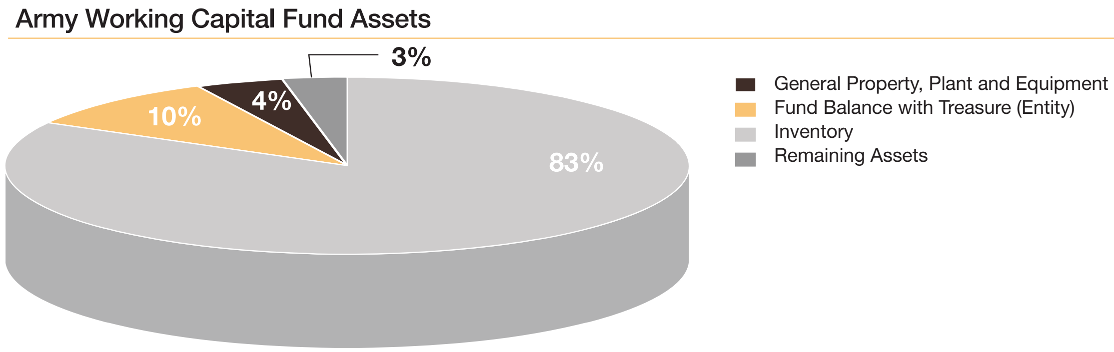
** Throughput is simply a count of the weapon systems completed for any given year.*

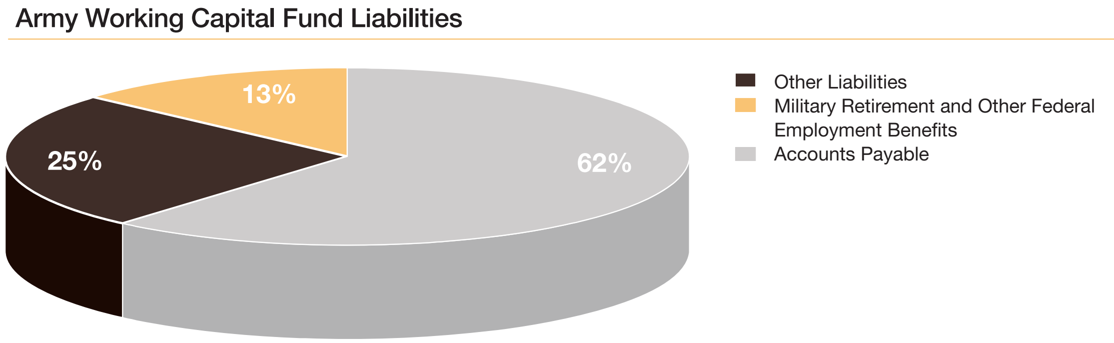
In recent years, the Army has begun implementing Lean Six Sigma to reengineer many of its manufacturing and administrative processes. The objective is to streamline operations across the enterprise, to reduce bureaucracy, and to improve flexibility and agility. In FY 2007, the Army was proud to be recognized for our Lean Six Sigma improvements through the award of 12 Shingo Prizes for Excellence in Manufacturing.

### *AWCF Balance Sheet*

The AWCF balance sheet shows total assets exceeding $23.7 billion. The vast majority of AWCF assets are Inventory, followed by $2.3 billion in Fund Balance with Treasury. Liabilities consist of $1.1 billion in Accounts Payable and $459.5 million in Other Liabilities, which includes payroll, benefits, accrued annual leave and workman's compensation (the Federal Employees' Compensation Act, or FECA, administered by the Department of Labor on behalf of the Army and reimbursed by AWCF). The remaining liabilities, $263.5 million, represent the actuarial amount of workman's compensation (FECA) estimated to be paid in the future for death, disability, medical and miscellaneous costs for approved compensation cases.

Figure 10. AWCF Assets and Liabilities




The majority of AWCF assets are the inventory items it holds to meet its mission of providing supplies, equipment and ordnance necessary to support the projection and sustainment of the force. In FY 2007, Inventory and Related Property increased by $1.8 billion as the AWCF accelerated the replenishment of inventory.

**Figure 11. Select AWCF Assets and Liabilities**

Army Working Capital Fund

*$ in billions*

| Asset Type | FY 2007 | FY 2006 | Change | Percentage of FY 2007 Assets |
|---|---|---|---|---|
| Inventory | $19.7 | $17.9 | $1.8 | 83% |
| Fund Balance with Treasury (Entity) | 2.3 | 0.9 | 1.4 | 10% |
| General Property, Plant and Equipment | 1.0 | 1.3 | (0.3) | 4% |
| Remaining Assets | 0.7 | 0.7 | 0.0 | 3% |
| **Total Assets** | **$23.7** | **$20.8** | **$3.0** | **100%** |
| **Liability Type** | **FY 2007** | **FY 2006** | **Change** | **Percentage of FY 2007 Liabilities** |
| Accounts Payable | $1.1 | $0.7 | $0.5 | 62% |
| Other Liabilities | 0.5 | 0.5 | (0.1) | 25% |
| Military Retirement and Other Federal Employment Benefits | 0.2 | 0.3 | (0.0) | 13% |
| **Total Liabilities** | **$1.8** | **$1.4** | **0.4** | **100%** |

*Amounts may not sum due to rounding.*

## Possible Future Effects of Existing Events and Conditions

Early last year, we modeled the cost of the "doctrinal" Army, i.e., how much is needed to field and to sustain the force and the institution capable of fulfilling the requirements of the National Military Strategy. According to figures the assessment generated, actual funding is insufficient to deliver the Army called for by OSD's strategic guidance.

In FY 2006, the cost of the doctrinal Army was approximately $138 billion per year, $24 billion more than the Army's fiscal guidance from OSD. Since that review, it has grown to $152 billion in FY 2008 dollars. This increase in part is the result of the president's decision to raise Army end strength by 74,000 active component, Army Reserve and Army National Guard personnel. As of today, planned DoD budgets continue to fall short of this true Army requirement.

Reliance on supplemental funding continues to be a concern. History indicates that political pressure will lead to a significant reduction in defense spending in the near future, which will include the elimination of supplemental appropriations. However, many requirements that have been covered by supplemental funding will continue, even when combat and sustainment operations have ceased. The Army cannot absorb these costs within current top-line projections. More broadly, any cut to the base budget would hamper the Army's efforts to restore balance, to modernize and to transform.

As we look to the future, national security experts are virtually unanimous in predicting that the next several decades will be ones of persistent conflict during which local and regional frictions, fueled by globalization and other emerging trends, are exploited by extremists to support their efforts to destroy our way of life. Faced with this future of persistent conflict, the nation needs an expeditionary Army with campaign qualities that is adequately sized and supported to be successful across the full operational spectrum.

We are committed to building this Army and to restoring balance as rapidly as possible. We will sustain our Soldiers, Families and civilians; prepare Soldiers for success in current operations; reset to restore readiness and depth for future operations; and transform to become the Army the nation requires today and in the future.

# Limitations

## *LIMITATIONS OF THE FINANCIAL STATEMENTS*

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

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

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

*Department of Defense - Department of the Army*

# CONSOLIDATED BALANCE SHEET

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

| | | 2007 Consolidated | | 2006 Consolidated |
|---|---|---|---|---|
| **ASSETS (Note 2)** | | | | |
| Intragovernmental: | | | | |
| Fund Balance with Treasury (Note 3) | | | | |
| Entity | $ | 127,318,317 | $ | 94,430,198 |
| Non-Entity Seized Iraqi Cash | | 22,663 | | 30,216 |
| Non-Entity-Other | | 640,752 | | 172,515 |
| Investments (Note 4) | | 3,448 | | 3,407 |
| Accounts Receivable (Note 5) | | 420,417 | | 357,183 |
| Other Assets (Note 6) | | 514,835 | | 601,861 |
| Total Intragovernmental Assets | $ | 128,920,432 | $ | 95,595,380 |
| | | | | |
| Cash and Other Monetary Assets (Note 7) | $ | 2,183,051 | $ | 1,784,810 |
| Accounts Receivable, Net (Note 5) | | 576,533 | | 627,721 |
| Loans Receivable (Note 8) | | 67 | | 0 |
| Inventory and Related Property, Net (Note 9) | | 33,938,649 | | 38,639,039 |
| General Property, Plant and Equipment, Net (Note 10) | | 90,968,019 | | 84,243,850 |
| Investments (Note 4) | | 0 | | 0 |
| Other Assets (Note 6) | | 6,607,587 | | 5,694,685 |
| **TOTAL ASSETS** | $ | 263,194,338 | $ | 226,585,485 |
| | | | | |
| **LIABILITIES (Note 11)** | | | | |
| Intragovernmental: | | | | |
| Accounts Payable (Note 12) | $ | 1,729,903 | $ | 1,593,783 |
| Debt (Note 13) | | 26,706 | | 11,404 |
| Other Liabilities (Note 15 & 16) | | 3,085,453 | | 3,181,296 |
| Total Intragovernmental Liabilities | $ | 4,842,062 | $ | 4,786,483 |
| | | | | |
| Accounts Payable (Note 12) | $ | 9,108,551 | $ | 10,884,262 |
| Military Retirement and Other Federal Employment Benefits (Note 17) | | 1,483,177 | | 1,461,098 |
| Environmental and Disposal Liabilities (Note 14) | | 45,698,351 | | 44,975,237 |
| Loan Guarantee Liability (Note 8) | | 290 | | 12,853 |
| Other Liabilities (Note 15 and Note 16) | | 9,092,542 | | 8,148,757 |
| **TOTAL LIABILITIES** | $ | 70,224,973 | $ | 70,268,690 |
| | | | | |
| **NET POSITION** | | | | |
| Unexpended Appropriations - Earmarked Funds (Note 23) | $ | 0 | $ | 0 |
| Unexpended Appropriations - Other Funds | | 124,485,256 | | 85,045,798 |
| Cumulative Results of Operations - Earmarked Funds | | 24,621 | | 42,792 |
| Cumulative Results of Operations - Other Funds | | 68,459,488 | | 71,228,205 |
| **TOTAL NET POSITION** | $ | 192,969,364 | $ | 156,316,795 |
| **TOTAL LIABILITIES AND NET POSITION** | $ | 263,194,338 | $ | 226,585,485 |



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

# CONSOLIDATED STATEMENT OF NET COST

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

| | 2007 Consolidated | 2006 Consolidated |
|---|---|---|
| **Program Costs** | | |
| Gross Costs | $ 178,746,856 | $ 175,017,273 |
| (Less: Earned Revenue) | (9,823,195) | (10,403,521) |
| Net Program Costs | $ 168,923,661 | $ 164,613,752 |
| **Cost Not Assigned to Programs** | 0 | 0 |
| **(Less: Earned Revenue Not Attributable to Programs)** | 0 | 0 |
| **Net Cost of Operations** | $ 168,923,661 | $ 164,613,752 |

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

*Department of Defense - Department of the Army*

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2007 Earmarked Funds | 2007 All Other Funds | 2007 Eliminations | 2007 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 42,792 | $ 71,228,205 | $ 0 | $ 71,270,997 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | (3,780,694) | 0 | (3,780,694) |
| Corrections of errors (+/-) | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 42,792 | $ 67,447,512 | $ 0 | $ 67,490,304 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | 179,732,087 | 0 | 179,732,087 |
| Nonexchange revenue | 145 | 0 | 0 | 145 |
| Donations and forfeitures of cash and cash equivalents | 5,761 | 0 | 0 | 5,761 |
| Transfers-in/out without reimbursement | (6,903) | 38,700 | 0 | 31,797 |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement (+/-) | 0 | 1,689,316 | 0 | 1,689,316 |
| Imputed financing from costs absorbed by others | 0 | 954,983 | 0 | 954,983 |
| Other (+/-) | 155 | (12,496,778) | 0 | (12,496,623) |
| **Total Financing Sources** | $ (842) | $ 169,918,308 | $ 0 | $ 169,917,466 |
| **Net Cost of Operations (+/-)** | 17,330 | 168,906,331 | 0 | 168,923,661 |
| **Net Change** | $ (18,172) | $ 1,011,977 | $ 0 | $ 993,805 |
| **Cumulative Results of Operations** | $ 24,620 | $ 68,459,488 | $ 0 | $ 68,484,109 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 85,045,798 | $ 0 | $ 85,045,798 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | 3,780,694 | 0 | 3,780,694 |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 88,826,492 | $ 0 | $ 88,826,492 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 214,837,314 | 0 | 214,837,314 |
| Appropriations transferred-in/out | 0 | 1,600,147 | 0 | 1,600,147 |
| Other adjustments (rescissions, etc) | 0 | (1,046,611) | 0 | (1,046,611) |
| Appropriations used | 0 | (179,732,087) | 0 | (179,732,087) |
| **Total Budgetary Financing Sources** | $ 0 | $ 35,658,763 | $ 0 | $ 35,658,763 |
| **Unexpended Apppropriations** | 0 | 124,485,255 | 0 | 124,485,255 |
| **Net Position** | $ 24,620 | $ 192,944,973 | $ 0 | $ 192,969,364 |



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

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2006 Earmarked Funds | 2006 All Other Funds | 2006 Eliminations | 2006 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 35,140 | $ 115,207,484 | $ 0 | $ 115,242,624 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | 0 | 0 | 0 |
| Corrections of errors (+/-) | 0 | (42,829,096) | 0 | (42,829,096) |
| **Beginning balances, as adjusted** | $ 35,140 | $ 72,378,388 | $ 0 | $ 72,413,528 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | (1) | 163,679,472 | 0 | 163,679,471 |
| Nonexchange revenue | 9,198 | 0 | 0 | 9,198 |
| Donations and forfeitures of cash and cash equivalents | 4,754 | 0 | 0 | 4,754 |
| Transfers-in/out without reimbursement | 0 | 453,164 | 0 | 453,164 |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 27,458 | 0 | 27,458 |
| Transfers-in/out without reimbursement (+/-) | 0 | 565,989 | 0 | 565,989 |
| Imputed financing from costs absorbed by others | 0 | 964,108 | 0 | 964,108 |
| Other (+/-) | (10) | (2,232,911) | 0 | (2,232,921) |
| **Total Financing Sources** | $ 13,941 | $ 163,457,280 | $ 0 | $ 163,471,221 |
| **Net Cost of Operations (+/-)** | 6,291 | 164,607,461 | 0 | 164,613,752 |
| **Net Change** | $ 7,650 | $ (1,150,181) | $ 0 | $ (1,142,531) |
| **Cumulative Results of Operations** | $ 42,790 | $ 71,228,207 | $ 0 | $ 71,270,997 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 74,704,745 | $ 0 | $ 74,704,745 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | 0 | 0 | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 74,704,745 | $ 0 | $ 74,704,745 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 173,014,453 | 0 | 173,014,453 |
| Appropriations transferred-in/out | 0 | 3,169,768 | 0 | 3,169,768 |
| Other adjustments (rescissions, etc) | (1) | (2,163,696) | 0 | (2,163,697) |
| Appropriations used | 1 | (163,679,472) | 0 | (163,679,471) |
| **Total Budgetary Financing Sources** | $ 0 | $ 10,341,053 | $ 0 | $ 10,341,053 |
| **Unexpended Apppropriations** | 0 | 85,045,798 | 0 | 85,045,798 |
| **Net Position** | $ 42,790 | $ 156,274,005 | $ 0 | $ 156,316,795 |

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

*Department of Defense - Department of the Army*

## COMBINED STATEMENT OF BUDGETARY RESOURCES

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

| | Budgetary Financing Accounts | | Non-Budgetary Financing Accounts | |
|---|---|---|---|---|
| | 2007 Combined | 2006 Combined | 2007 Combined | 2006 Combined |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 17,409,234 | $ 15,477,292 | $ 1,292 | $ 1,525 |
| Recoveries of prior year unpaid obligations | 17,827,086 | 16,851,046 | 0 | 0 |
| Budget authority | | | | |
| Appropriation | 214,853,089 | 173,027,517 | 0 | 0 |
| Borrowing authority | 0 | 0 | 15,500 | 11,404 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 21,615,878 | 21,805,492 | 285 | 326 |
| Change in receivables from Federal sources | 77,579 | (20,488) | 0 | 0 |
| Change in unfilled customer orders | | | | |
| Advance received | 199,782 | 420,284 | 0 | 0 |
| Without advance from Federal sources | 2,430,565 | 805,587 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 239,176,893 | $ 196,038,392 | $ 15,785 | $ 11,730 |
| Nonexpenditure transfers, net, anticipated and actual | 1,638,847 | 3,169,768 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | (1,046,610) | (2,163,696) | 0 | 0 |
| **Total Budgetary Resources** | $ 275,005,450 | $ 229,372,802 | $ 17,077 | $ 13,255 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 217,025,713 | $ 186,913,360 | $ 16,487 | $ 11,962 |
| Reimbursable | 25,721,549 | 25,435,449 | 0 | 0 |
| Subtotal | $ 242,747,262 | $ 212,348,809 | $ 16,487 | $ 11,962 |
| Unobligated balance: | | | | |
| Apportioned | 28,970,760 | 14,880,099 | 187 | 535 |
| Exempt from apportionment | 0 | 4,035 | 0 | 0 |
| Subtotal | $ 28,970,760 | $ 14,884,134 | $ 187 | $ 535 |
| Unobligated balance not available | 3,287,428 | 2,139,859 | 403 | 758 |
| **Total status of budgetary resources** | $ 275,005,450 | $ 229,372,802 | $ 17,077 | $ 13,255 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 93,609,036 | $ 80,720,880 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (17,136,557) | (16,351,456) | 0 | 0 |
| Total unpaid obligated balance | $ 76,472,479 | $ 64,369,424 | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 242,747,262 | $ 212,348,809 | $ 16,487 | $ 11,962 |
| Less: Gross outlays | (203,436,459) | (186,063,536) | (16,487) | (11,962) |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer | 0 | 0 | 0 | 0 |
| payments from Federal sources (+/-) | | | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | $ (17,827,086) | $ (16,851,046) | $ 0 | $ 0 |
| Change in uncollected customer payments from Federal sources (+/-) | (2,508,143) | (785,100) | 0 | 0 |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 115,092,752 | 90,155,105 | 0 | 0 |
| Less: Uncollected customer payments (+/-) from Federal sources (-) | (19,644,699) | (17,136,557) | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 95,448,053 | $ 73,018,548 | $ 0 | $ 0 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | $ 203,436,459 | $ 186,063,536 | $ 16,487 | $ 11,962 |
| Less: Offsetting collections | (21,815,661) | (22,225,774) | (284) | (325) |
| Less: Distributed Offsetting receipts | 807,967 | (783,002) | 0 | 0 |
| **Net Outlays** | $ 182,428,765 | $ 163,054,760 | $ 16,203 | $ 11,637 |

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

# Note 1. Significant Accounting Policies

## 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army General Fund, as required by the Chief Financial Officers Act of 1990 and expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Army General Fund in accordance with the Department of Defense (DoD), Financial Management Regulation (FMR), the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," and to the extent possible generally accepted accounting principles (GAAP). Effective 4th Quarter, Fiscal Year (FY) 2006, DoD no longer publishes consolidating/combining financial statements. The accompanying financial statements account for all resources for which the Army General Fund is responsible, unless otherwise noted. Information relative to classified assets, programs, and operations is aggregated and reported in such a manner that it is not discernable.

The Army General Fund is unable to fully implement all elements of GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The Army General Fund derives its reported values and information for major asset and liability categories largely from nonfinancial systems such as inventory systems and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The Army General Fund continues to implement process and system improvements addressing these limitations. The Army General Fund currently has 13 auditor-identified financial statement material weaknesses: (1) Financial Management Systems; (2) Accounting Adjustments; (3) Intragovernmental Eliminations; (4) Abnormal Account Balances; (5) Accounts Receivable; (6) Inventory and Related Property; (7) Property, Plant, and Equipment; (8) Accounts Payable; (9) Environmental Liabilities; (10) Statement of Net Cost; (11) Statement of Budgetary Resources; (12) Reconciliation of Net Cost of Operations to Budget; and (13) Fund Balance with Treasury.

## 1.B. Mission of the Reporting Entity

The Army mission is to support the National Security and Defense Strategies by providing well-trained, well-led, and well-equipped forces to the combatant commanders. This mission encompasses the intent of the Congress, as defined in Title 10 of the U.S. Code, to preserve the peace and security, and provide for the defense of the U.S., the Territories, Commonwealths and Possessions of the U.S., and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 232-year life of the Army, but the environment and nature of conflict have undergone many changes over that same time, especially with the Global War on Terrorism (GWOT). This has required that the Army simultaneously transform the way that it fights, trains and equips its soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.



## 1.C. Appropriations and Funds

The Army General Fund receives its appropriations and funds as general, trust, special and deposit funds. The Army General Fund uses appropriations and funds to execute its missions and subsequently report on resource usage.

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

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

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

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. The Army General Fund acts as an agent or a custodian for funds awaiting distribution.

The Army General Fund is a party to allocation transfers with other federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds for another agency. 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. Exceptions to this general rule apply to specific funds for which the OMB has directed that all activity be reported in the financial statements of the child entity. Exceptions include all Treasury-Managed Trust Funds, Executive Office of the President (EOP) and all other funds specifically designated by OMB.

The Army General Fund is a party to allocation transfers as the child for the Federal Highway Administration and the U.S. Forestry Service. Additionally, the Army General Fund is a party to allocation transfers as the child to the Executive Office of the President (EOP) Iraq Relief and Reconstruction Fund, which meets the OMB exception. All activity related to these parent transfers is included in the Army's financial statements.

The Army General Fund allocates funds, as the parent, to the Department of Agriculture for procurement funds, and the Department of Transportation for military construction and operations and maintenance funds for Active Army and Army National Guard. All activity related to these parent transfers is included in the Army General Fund's financial statements.

## 1.D. Basis of Accounting

For FY 2007, the Army General Fund's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the Army General Fund's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP for federal agencies. These systems were not designed to collect and record financial information on the full accrual accounting basis, as required by GAAP. Most of the Army General Fund's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The DoD has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until all of the Army General Fund's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by GAAP, the Army General Fund's financial data will be derived from budgetary transactions (obligations, disbursements and collections); transactions from nonfinancial feeder systems; and accruals made for major items such as payroll expenses, accounts payable and environmental liabilities. As a result, the proprietary records may not align with the budgetary records without adjustment.



In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems do not capture and report accumulated costs for major programs based upon the performance measures, as required by the Government Performance and Results Act. The DoD is working toward a cost reporting methodology that meets the need for cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," factoring in the need to keep the financial statements from being overly voluminous.

## 1.E. Revenues and Other Financing Sources

The Army General Fund receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Army General Fund recognizes revenue as a result of costs incurred or services provided to other federal agencies and the public. Full cost pricing is the Army General Fund's standard policy for services provided, as required by OMB Circular A-25, "User Charges." The Army General Fund recognizes revenue when earned within the constraints of current system capabilities. In some instances, revenue is recognized when bills are issued.

The Army General Fund does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, "Reconciliation of Net Cost of Operations to Budget." The U.S. has cost sharing agreements with other countries. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

## 1.F. Recognition of Expenses

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the Army General Fund's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for major items such as payroll expenses, accounts payable, environmental liabilities and unbilled revenue. In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition toward the consumption method for recognizing OM&S expenses.

## 1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the Army General Fund cannot accurately eliminate intragovernmental transactions by customer because the Army General Fund's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances. IntraDoD balances are then eliminated. The volume of intragovernmental transactions is so large that after-the-fact reconciliation cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will ensure intragovernmental information is accurate and will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" provide guidance for reporting and reconciling intragovernmental balances. While DoD is unable to fully reconcile intragovernmental transactions with all federal partners, the Army General Fund is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor and benefit program transactions with the Office of Personnel Management.

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

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

## 1.H. Transactions with Foreign Governments and International Organizations

Each year, the Army General Fund sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Payment in U.S. dollars is required in advance.

## 1.I. Funds with the U.S. Treasury

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

In addition, the DFAS sites and the USACE Finance Center 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 Army General Fund's recorded balance in the FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled.

## 1.J. Foreign Currency

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

The majority of cash and all foreign currency is classified as nonentity and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting and foreign currency accommodation exchange missions. Cash seized during Operation Iraqi Freedom is restricted for use to assist the Iraqi people and support the restoration of Iraq.

The Army General Fund conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operations and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction). The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Army General Fund does not separately identify foreign currency fluctuation transaction.



## 1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes three categories: accounts, claims and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based on the estimate of uncollectible accounts receivable from the public on a percentage of aged receivables by category. The allowance is calculated by using 50% of aged receivables in the 180-day to 2-year category and 100% of aged receivables in the greater than 2-year category. Foreign debt is excluded from the allowance calculation. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf*.

## 1.L. Direct Loans and Loan Guarantees

The Army General Fund operates the Armament Retooling and Manufacturing Support (ARMS) loan guarantee program to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities. Legal authority for the ARMS loan guarantee program is contained in Title 10, United States Code 4551-4555.

The Federal Credit Reform Act of 1990 governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

## 1.M. Inventories and Related Property

The Army General Fund manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes all items (ships, tanks, self propelled weapons, aircraft, etc., and related spares, repair parts and support equipment, but excluding real property, installations and utilities) necessary to equip, operate, maintain and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in, and available from, the commercial sector are not managed in the Army General Fund materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Army General Fund holds materiel based on military need and support for contingencies. The DoD does not attempt to account separately for "inventory held for sale" and "inventory held in reserve for future sale" based on SFFAS No. 3 definitions, unless otherwise noted.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Army General Fund uses the purchase method. Under this method, materials and supplies are expensed when purchased. During FY 2007, the Army General Fund expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Army General Fund determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Army General Fund recognizes condemned materiel as "Excess, Obsolete, and Unserviceable." The cost of disposal is greater than the potential scrap value; therefore, the net value of condemned materiel is zero. Potentially redistributed materiel, presented in previous years as "excess, obsolete, and unserviceable," is included in the "held for use" or "held for repair" categories according to its condition.

## 1.N. Investments

The Army General Fund 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 Army General Fund's intent is to hold investments to maturity. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Army General Fund invests in nonmarketable securities. The two types of nonmarketable securities are par value and market-based intragovernmental securities. The Bureau of Public Debt issues nonmarketable par value intragovernmental securities. Nonmarketable, market-based intragovernmental securities emulate marketable securities, but are not publicly traded.

## 1.O. General Property, Plant and Equipment

The SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," established GAAP for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard provided for the use of estimated historical cost for valuing military equipment if obtaining actual historical cost information is not practical. The DoD used the Bureau of Economic Analysis (BEA) to calculate the value of the military equipment for reporting periods from October 1, 2002, through March 31, 2006.

Effective 3rd Quarter, FY 2006, the DoD replaced the BEA estimation methodology with one based on internal records for military equipment. To create a baseline, the Army General Fund identified the universe of military equipment by accumulating information related to program funding and associated military equipment, equipment useful life, program acquisitions and disposals. The military equipment baseline is updated using expenditure information and information related to acquisition and disposals.

In FY 2006, the DoD revised the real property capitalization threshold from $100,000 to $20,000. The current $100,000 capitalization threshold remains unchanged for the remaining General PP&E categories. The Army General Fund has not implemented this revised policy due to system and process limitations.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the DoD capitalization threshold of $100,000. The DoD also requires capitalization of improvement costs over the DoD capitalization threshold of $100,000 for General PP&E. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

General PP&E previously capitalized at amounts below $100,000 was written off the Army General Fund financial statements in FY 1998.

When it is in the best interest of the government, the Army General Fund provides government property to contractors to complete contract work. The Army General Fund either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, Federal accounting standards require that it be reported on the Army General Fund Balance Sheet.



The DoD is developing new policies and a contractor reporting process, which will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, Army General Fund reports only government property in the possession of contractors that is maintained in Army General Fund's property systems. The DoD has issued new property accountability and reporting requirements, which require Army General Fund to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary to bring Army General Fund into compliance with Federal accounting standards.

## 1.P. Advances and Prepayments

The DoD policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. Not all DoD entities have implemented this policy primarily due to system limitations.

## 1.Q. Leases

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

Office space and leases entered into by Army General Fund in support of contingency operations are the largest component of operating leases. These costs were gathered from existing leases, General Services Administration bills and Interservice Support Agreements. Future year projections use the Consumer Price Index (CPI), rather than the DoD inflation factor. The CPI has an impact on increases to the leases, especially those at commercial lease sites. Equipment leases have a variety of lease terms, which are not expected to be renewed upon expiration. Other operating leases are generally one-year leases.

## 1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances and certain contract financing payments that are not reported elsewhere on Army General Fund's Balance Sheet.

The Army General Fund conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, Army General Fund provides financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost and interim payments under certain cost-reimbursement contracts. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement authorizes only for construction of real property, shipbuilding, and ship conversion, alteration or repair. Progress payments for real property and ships are reported as construction in progress. The capitalization begins when the asset is completed and put into service. It is Army policy to record certain contract financing payments as Other Assets, which are not capitalized.

## 1.S. Contingencies and Other Liabilities

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation and possible claims and assessments. The Army General Fund'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; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the Army General Fund's assets. This type of liability has two components: environmental and nonenvironmental. The SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires recognition of an anticipated environmental disposal liability when the asset is placed into service. The Army General Fund is not in compliance with this requirement as there are system and control weaknesses that precluded conformity. Nonenvironmental disposal liabilities are recognized for assets when management decides to dispose of an asset based upon DoD policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of Federal Government." The DoD recognizes nonenvironmental disposal liabilities for nuclear-powered asset military equipment when it is placed into service. Such amounts are developed in conjunction with, and not easily identifiable separately from, environmental disposal costs. The Army General Fund is not in compliance with this DoD requirement as there are system and control weaknesses that precluded conformity.

## 1.T. Accrued Leave

The Army General Fund reports as liabilities military leave and 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 the current pay rates.

## 1.U. Net Position

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

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

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets that were not reimbursed.

## 1.V. Treaties for Use of Foreign Bases



The DoD has the use of the land, buildings and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Army General Fund purchases capital assets overseas with appropriated funds; however, the host country retains title to land and improvements. Generally, treaty terms allow the Army General Fund continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, whereby use of the foreign bases is prohibited, losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

## 1.W. Comparative Data

Not Applicable.

## 1.X. Unexpended Obligations

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

## 1.Y. Undistributed Disbursements and Collection

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

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. The Army General Fund follows this procedure. Unsupported, undistributed collections and disbursements represent collections and disbursements that are not in agreement with accounting records. Unsupported, undistributed disbursements are recorded in accounts payable. Unsupported, undistributed collections are recorded in other liabilities. These are normally reconciled in the following month.

## 1.Z. Significant Events

Beginning in FY 2007, the Office of Management and Budget (OMB) changed the reporting requirements for allocation transfers. Due to this change, the Army reports in its basic financial statements the programs it administers on behalf of the Executive Office of the President. Previously, the Army only recorded the proprietary balances for these accounts. With the change in guidance, the Army is reporting both the budgetary and proprietary balances in its financial statements.

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF is no longer considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

As of FY 2007, the Army GF no longer presents a Statement of Custodial Activity (SCA) to separately report the Development Fund for Iraq; and, the previously supporting Note 22 is renamed and redirected for the purpose of reporting "Incidental Custodial Collections." Previously, the Army GF reported the fund reconciliation in the SCA and summary information in Note 2, Nonentity Assets. Since the fund has been substantially disbursed and the residual balance is immaterial, Army GF no longer presents the fund on a separate statement. The fund balances continue to be disclosed in Note 2, Nonentity Assets.

# Note 2. Nonentity Assets

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Intragovernmental Assets** | | |
| A. Fund Balance with Treasury | $ 663,415 | $ 202,731 |
| B. Accounts Receivable | 0 | 0 |
| C. Total Intragovernmental Assets | $ 663,415 | $ 202,731 |
| **2. Nonfederal Assets** | | |
| A. Cash and Other Monetary Assets | $ 2,183,051 | $ 1,784,810 |
| B. Accounts Receivable | 16,752 | 50,670 |
| C. Other Assets | 0 | 0 |
| D. Total Nonfederal Assets | $ 2,199,803 | $ 1,835,480 |
| **3. Total Nonentity Assets** | $ 2,863,218 | $ 2,038,211 |
| **4. Total Entity Assets** | $ 260,331,120 | $ 224,547,274 |
| **5. Total Assets** | $ 263,194,338 | $ 226,585,485 |

**Balance sheet presentation of Fund Balance with Treasury**

The Fund Balance with Treasury shown on the schedule above is comprised of Nonentity Seized Iraqi Cash and Nonentity Other.

Nonentity Other includes the Development Fund for Iraq and deposit funds.

**Definitions**

Nonentity assets are assets for which the Army General Fund maintains stewardship accountability and responsibility to report, but are not available for the Army General Fund's operation.

The Nonentity Fund Balance with Treasury consists of deposit funds, Seized Iraqi Cash and the Development Fund for Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Seized Iraqi Cash is former Iraqi regime monies confiscated by coalition forces. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations and deposits from unencumbered oil-for-food program funds. The DFI began with a balance of $136 million with disbursements of $123.3 million leaving $12.7 million retained for future support of foreign governments

Nonentity Cash and Other Monetary Assets consist of cash held by disbursing officers to carry out their paying, collecting and foreign currency accommodation exchange missions. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.



Nonentity Nonfederal Accounts Receivable are primarily from cancelled year appropriations. These receivables will be returned to the U.S. Treasury as miscellaneous receipts once collected.

# Note 3. Fund Balance with Treasury

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Fund Balances** | | |
| A. Appropriated Funds | $ 127,263,434 | $ 94,368,206 |
| B. Revolving Funds | 6,992 | 19,851 |
| C. Trust Funds | 976 | 1,051 |
| D. Special Funds | 46,915 | 41,090 |
| E. Other Fund Types | 663,415 | 202,731 |
| F. Total Fund Balances | $ 127,981,732 | $ 94,632,929 |
| **2. Fund Balances Per Treasury Versus Agency** | | |
| A. Fund Balance per Treasury | $ 128,737,334 | $ 95,471,092 |
| B. Fund Balance per Army | 127,981,732 | 94,632,929 |
| **3. Reconciling Amount** | $ 755,602 | $ 838,163 |

### Other Fund Types

Other Fund Types consist of deposit funds, Seized Iraqi Cash and the Development Fund for Iraq (DFI). Deposit funds are generally used to record amounts held temporarily until paid to the appropriate government or public entity. Seized Iraqi cash is former Iraqi regime monies confiscated by coalition forces. The DFI consists of proceeds from Iraqi oil sales, repatriated assets from the United States and other nations and deposits from unencumbered oil-for-food program funds.

### Reconciling Amount

The U.S. Treasury reported an additional $755.6 million in the Fund Balance with Treasury than reported by the Army General Fund. This includes $630.0 million in canceling year authority, $117.6 million in unavailable receipts and $8.0 million in net differences due to the U.S. Treasury treatment of allocation transfers.

## Status of Fund Balance with Treasury

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Unobligated Balance** | | |
| A. Available | $ 28,970,947 | $ 14,884,671 |
| B. Unavailable | 3,287,831 | 2,140,616 |
| **2. Obligated Balance not yet Disbursed** | $ 115,092,752 | $ 90,155,105 |
| **3. Nonbudgetary FBWT** | $ 278,513 | $ 4,592,476 |
| **4. NonFBWT Budgetary Accounts** | $ (19,648,311) | $ (17,139,939) |
| **5. Total** | $ 127,981,732 | $ 94,632,929 |

**Definitions**

The Status of the Fund Balance with Treasury consists of unobligated and obligated balances. These balances reflect the budgetary authority remaining for disbursements against current or future obligations. In addition, the Status of the Fund Balance with Treasury includes various accounts that affect either budgetary reporting or the Fund Balance with Treasury, but not both.

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

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

Nonbudgetary Fund Balance with Treasury includes entity and nonentity Fund Balance with Treasury accounts that do not have budgetary authority, such as unavailable receipt accounts, clearing accounts, deposit accounts and Iraqi custodial accounts.

NonFund Balance with Treasury Budgetary Accounts include budgetary accounts that do not affect Fund Balance with Treasury, such as contract authority, borrowing authority and investment accounts, accounts receivable, as well as unfilled orders without advance from customers. This category reduces the Status of the Fund Balance with Treasury.

**Other Relevant Information for Comprehension**

Unobligated Balance Unavailable of $3.3 billion consists of unobligated or unapportioned authority that has expired, which restricts the ability to incur new obligations.

## Disclosures Related to Suspense/Budget Clearing Accounts

| As of September 30 | 2005 | 2006 | 2007 | (Decrease)/ Increase from FY 2006 - 2007 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **Account** | | | | |
| F3845 – Personal Property Proceeds | $ 931 | $ 360 | $ 419 | $ 59 |
| F3875 – Budget Clearing Account Suspense | (27,176) | 555,556 | (371,357) | (926,913) |
| F3880 – Lost or Cancelled Treasury Checks | 7,973 | 19,311 | 4,576 | (14,735) |
| F3882 – Uniformed Services Thrift Savings Plan Suspense | 25,084 | 31,181 | 32,769 | 1,588 |
| F3885 – Interfund/IPAC Suspense | (36,501) | (24,652) | (18,540) | 6,112 |
| F3886 – Thrift Savings Plan Suspense | 117 | 72 | (66) | (138) |
| **Total** | $ (29,572) | $ 581,828 | $ (352,199) | $ (934,027) |



**Definitions**

The F3845 suspense account represents the balance of proceeds from the sale of personal property.

The F3875 suspense clearing account represents the Disbursing Officer's suspense, which includes Federal Income tax withholding for military pay.

The F3880 suspense account represents the balance of U.S. Treasury checks that have either been lost by the payee and need to be reissued, have never been cashed by the payee, or have been cancelled by the U.S. Treasury and need to be returned to the original appropriation.

The F3882 suspense account was established for the Uniformed Services Thrift Savings Plan in FY 2002. The amounts in this account represent a timing difference between the posting of the Thrift Savings Plan deductions by the National Finance Center and the posting of these amounts in the military accounting systems in the following month.

The F3885 suspense account includes the Interfund and Intragovernmental Payment and Collections (IPAC) suspense.

The F3886 suspense account includes payroll deductions for civilian employees Thrift Savings Plan.

## Disclosures Related to Problem Disbursements

| As of September 30 | 2005 | 2006 | 2007 | (Decrease)/ Increase from FY 2006 to 2007 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Total Problem Disbursements, Absolute Value** | | | | |
| A. Unmatched Disbursements (UMDs) | $ 120,703 | $ 44,409 | $ 53,281 | $ 8,872 |
| B. Negative Unliquidated Obligations (NULO) | 20,927 | 15,445 | 42,250 | 26,805 |
| C. In-Transit Disbursements | 1,518,762 | 2,244,106 | 2,820,874 | 576,768 |
| **Total** | $ 1,660,392 | $ 2,303,960 | $ 2,916,405 | $ 612,445 |

**Definitions**

Problem Disbursements are reported as an absolute value amount. An absolute value amount is the sum of the numerical value of debit and credit transactions without regard to the sign.

An Unmatched Disbursement (UMD) occurs when a payment is not matched to a corresponding obligation in the accounting system.

A Negative Unliquidated Obligation (NULO) occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

In-transits represent the absolute value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity and have not been posted to the accounting system.

**UMDs, NULO, and Aged In-Transits**

Beginning 2nd Quarter, FY 2007, in-transit disbursements are reported as absolute value, as opposed to net amounts disclosed in prior years. This reporting change applies to amounts in the note schedule for both the current and comparative years.

# Note 4. Investments and Related Interest

| As of September 30 (Amounts in thousands) | 2007 Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| **1. Intragovernmental Securities** | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | $ 0 | | $ 0 | $ 0 | $ 0 |
| 2. Medicare Eligible Retiree Health Care Fund | 0 | | 0 | 0 | 0 |
| 3. US Army Corps of Engineers | 0 | | 0 | 0 | 0 |
| 4. Other Funds | 3,384 | effective interest | 30 | 3,414 | 3,257 |
| 5. Total Nonmarketable, Market-Based | 3,384 | | 30 | 3,414 | 3,257 |
| B. Accrued Interest | 34 | | | 34 | 34 |
| C. Total Intragovernmental Securities | $ 3,418 | | $ 30 | $ 3,448 | $ 3,291 |
| **2. Other Investments** | | | | | |
| A. Total Other Investments | $ 0 | | $ 0 | $ 0 | N/A |

| As of September 30 (Amounts in thousands) | 2006 Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| **1. Intragovernmental Securities** | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | $ 0 | | $ 0 | $ 0 | $ 0 |
| 2. Medicare Eligible Retiree Health Care Fund | 0 | | 0 | 0 | 0 |
| 3. US Army Corps of Engineers | 0 | | 0 | 0 | 0 |
| 4. Other Funds | 3,337 | effective interest | 46 | 3,383 | 3,380 |
| 5. Total Nonmarketable, Market-Based | 3,337 | | 46 | 3,383 | 3,380 |
| B. Accrued Interest | 24 | | | 24 | 24 |
| C. Total Intragovernmental Securities | $ 3,361 | | $ 46 | $ 3,407 | $ 3,404 |
| **2. Other Investments** | | | | | |
| A. Total Other Investments | $ 0 | | $ 0 | $ 0 | N/A |

### Relevant Information for Comprehension

The Other Funds include the Army Gift Fund. The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army General Fund along with the interest received from the investment of such donations. The related earnings are allocated to appropriate Army General Fund activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.



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. U.S. Treasury securities are issued to the Army General Fund as evidence of its deposits. U.S. Treasury securities are an asset to the Army General Fund and a liability to the U.S. Treasury. Because the Army General Fund 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. The U.S. Treasury securities provide the Army General Fund with authority to draw upon the U.S. Treasury to make expenditures. When the Army General Fund 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.

# Note 5. Accounts Receivable

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| **1. Intragovernmental Receivables** | $ 420,417 | N/A | $ 420,417 | $ 357,183 |
| **2. Nonfederal Receivables (From the Public)** | $ 656,538 | $ (80,005) | $ 576,533 | $ 627,721 |
| **3. Total Accounts Receivable** | $ 1,076,955 | $ (80,005) | $ 996,950 | $ 984,904 |

## Aged Accounts Receivable

| As of September 30 | 2007 | | 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Intragovernmental | Nonfederal | Intragovernmental | Nonfederal |
| CATEGORY | | | | |
| **Nondelinquent** | | | | |
| Current | $ 1,257,374 | $ 363,985 | $ 1,311,916 | $ 454,202 |
| Noncurrent | 0 | 0 | 0 | 0 |
| **Delinquent** | | | | |
| 1 to 30 days | $ 1,142 | $ 44,098 | $ 1,400 | $ 1,270 |
| 31 to 60 days | 6,496 | 12,594 | 834 | 10,481 |
| 61 to 90 days | 4,552 | 44,041 | 2,486 | 20,184 |
| 91 to 180 days | 3,947 | 63,165 | 4,042 | 25,401 |
| 181 days to 1 year | 9,802 | 51,209 | 6,506 | 20,895 |
| Greater than 1 year and less than or equal to 2 years | 15,200 | 43,925 | 2,714 | 40,034 |
| Greater than 2 years and less than or equal to 6 years | 74 | 26,620 | 0 | 51,565 |
| Greater than 6 years and less than or equal to 10 years | 0 | 4,757 | 0 | 117,830 |
| Greater than 10 years | 0 | 2,144 | 0 | 10,528 |
| **Subtotal** | $ 1,298,587 | $ 656,538 | $ 1,329,898 | $ 752,390 |
| Less Supported Undistributed Collections | (55,680) | 0 | (35,470) | (23) |
| Less Eliminations | (822,490) | 0 | (937,246) | 0 |
| Less Other | 0 | 0 | 0 | 0 |
| **Total** | $ 420,417 | $ 656,538 | $ 357,182 | $ 752,367 |

### Relevant Information

The table above identifies aged accounts receivable groups for the Army General Fund as reported in the Monthly Receivable Data Reports.

The delinquencies for the Army General Fund consist primarily of debts that have been turned over to the Debt and Claims Management (DCM) and the Debt Management Office (DMO) for resolution. The DMO and the DCM submit delinquent public accounts receivable to the U.S. Treasury no later than 180 days after the original bill date, unless exempted by statute or law. The U.S. Treasury has been delegated authority to close out or refer to the Department of Justice debts totaling $100 thousand up to $500 thousand that Treasury has been unable to collect; debts greater than $500 thousand must be referred to the Department of Justice. Demand letters are sent to nonfederal debtors once the payment becomes 30 days delinquent.

Delinquent accounts receivable are aged from the date the account is considered delinquent, as outlined in the DoD Financial Management Regulations. To collect delinquent accounts receivable, the Army follows the DoD concept of operations for collections, which requires follow-up actions at 30-day intervals with ordering activities.

## Note 6. Other Assets

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Intragovernmental Other Assets** | | | | |
| A. Advances and Prepayments | $ | 514,835 | $ | 601,861 |
| B. Other Assets | | 0 | | 0 |
| C. Total Intragovernmental Other Assets | $ | 514,835 | $ | 601,861 |
| **2. Nonfederal Other Assets** | | | | |
| A. Outstanding Contract Financing Payments | $ | 6,011,028 | $ | 5,310,457 |
| B. Other Assets (With the Public) | | 596,559 | | 384,228 |
| C. Total Nonfederal Other Assets | $ | 6,607,587 | $ | 5,694,685 |
| **3. Total Other Assets** | $ | 7,122,422 | $ | 6,296,546 |

### Relevant Information for Comprehension

Other Assets (with the public) largely consist of military pay and travel advances.

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Army General Fund that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army General Fund is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of $6.0 billion is comprised of approximately $5.5 billion in contract financing payments and $500.0 million in estimated future funded payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities.)

## Note 7. Cash and Other Monetary Assets

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Cash** | $ | 1,101,981 | $ | 980,861 |
| **2. Foreign Currency** | | 1,081,070 | | 803,949 |
| **3. Other Monetary Assets** | | 0 | | 0 |
| **4. Total Cash, Foreign Currency, & Other Monetary Assets** | $ | 2,183,051 | $ | 1,784,810 |



### Other Information Related to Cash and Other Monetary Assets

Cash consists primarily of cash held by disbursing officers to carry out their paying and collecting mission. Foreign currency consists primarily of burden sharing funds from the Republic of Korea.

Foreign currency is valued using the U.S. Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. All the Army General Fund cash and foreign currency is nonentity and is, therefore, restricted.

# Note 8. Direct Loan and/or Loan Guarantee Programs

**As of September 30**

### Direct Loan and/or Loan Guarantee Programs

The Army operates the Armament Retooling & Manufacturing Support (ARMS) Initiative Loan Guarantee program. The Army General Fund does not operate a direct loan program.

The Federal Credit Reform Act of 1990 governs all guarantee commitments made after FY 1991 resulting in loan guarantees.

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Army to cover defaults and delinquencies, interest subsidies or other payments; offset by
- Payments to the Army, including origination and other fees, penalties and recoveries.

### Armament Retooling and Manufacturing Support Initiative

The ARMS Initiative, Title 10, United States Code 4551-4555, is a loan guarantee program designed to encourage commercial use of Army General Fund inactive ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than the current military requirements; however, this capacity may be needed by the military in the future. The revenues from the property rental are used to help offset the overhead costs for the operation, maintenance and environmental clean up at the facilities.

The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army and U.S. Department of Agriculture (USDA) Rural Business-Cooperative Service (RBS) established a memorandum of understanding for the RBS to administer the ARMS Initiative loan guarantee program.

### Loan Guarantees

In an effort to preclude additional Army General Fund loan liability, the Assistant Secretary of the Army (Acquisition Logistics and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army continues to operate under the moratorium and does not anticipate becoming a party in new loan guarantees.

## Summary of Direct Loans and Loan Guarantees

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Loans Receivable** | | |
| Direct Loans | $ 0 | $ 0 |
| 1. Foreign Military Loan Liquidating Account | | |
| 2. Military Housing Privatization Initiative | 0 | 0 |
| 3. Foreign Military Financing Account | 0 | 0 |
| 4. Military Debt Reduction Financing Account | 0 | 0 |
| **5. Total Direct Loans** | $ 0 | $ 0 |
| Defaulted Loan Guarantees | $ 0 | $ 0 |
| 6. A. Foreign Military Financing Account | | |
| B. Military Housing Privatization Initiative | 0 | 0 |
| C. Armament Retooling & Manufacturing Support Initiative | 67 | 0 |
| **7. Total Default Loan Guarantees** | $ 67 | $ 0 |
| **8. Total Loans Receivable** | $ 67 | $ 0 |
| **Loan Guarantee Liability** | | |
| 1. Foreign Military Liquidating Account | $ 0 | $ 0 |
| 2. Military Housing Privatization Initiative | 0 | 0 |
| 3. Armament Retooling & Manufacturing Support Initiative | 290 | 12,853 |
| **4. Total Loan Guarantee Liability** | $ 290 | $ 12,853 |

Total Loans Receivable represents the total amount of defaulted loans guaranteed less an allowance for uncollectible loans. The $67 thousand in loans receivable consists of a defaulted loan guarantee of $14.4 million less a $14.3 million allowance for subsidy cost, or uncollectible loans.

The Loan Guarantee Liability represents the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The $290 thousand in loan guarantee liability represents the estimated long-term cost of the currently performing loans to the U.S. Government for the ARMS Initiative Loan Guarantee Program.

## Direct Loans Obligated

Not Applicable.

## Total Amount of Direct Loans Disbursed



Not Applicable.

## Subsidy Expense for Post FY 1991 Direct Loan

Not Applicable.

## Subsidy Rate for Direct Loans by Program

Not Applicable.

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans

Not Applicable.

## Defaulted Guaranteed Loans

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Defaulted Guaranteed Loans from Pre-FY 1992 Guarantees (Allowance for Loss Method):** | | |
| **1. Foreign Military Liquidating Account** | | |
| A. Defaulted Guaranteed Loans Receivable, Gross | $ 0 | $ 0 |
| B. Interest Receivable | 0 | 0 |
| C. Foreclosed Property | 0 | 0 |
| D. Allowance for Loan Losses | 0 | 0 |
| E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net | $ 0 | $ 0 |
| **Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):** | | |
| **2. Military Housing Privatization Initiative** | | |
| A. Defaulted Guaranteed Loans Receivable, Gross | $ 0 | $ 0 |
| B. Interest Receivable | 0 | 0 |
| C. Foreclosed Property | 0 | 0 |
| D. Allowance for Subsidy Cost (Present Value) | 0 | 0 |
| E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net | $ 0 | $ 0 |
| **3. Armament Retooling & Manufacturing Support Initiative** | | |
| A. Defaulted Guaranteed Loans Receivable, Gross | $ 14,407 | $ 0 |
| B. Interest Receivable | 0 | 0 |
| C. Foreclosed Property | 0 | 0 |
| D. Allowance for Subsidy Cost (Present Value) | (14,340) | 0 |
| E. Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net | $ 67 | $ 0 |
| **4. Total Value of Assets Related to Defaulted Guaranteed Loans Receivable** | $ 67 | $ 0 |

The ARMS Initiative Guaranteed Loans Program realized one guaranteed loan default in FY 2007. The defaulted amount is $14.4 million, and the subsidy cost of the default is estimated at $14.3 million. The residual $67 thousand represents the value of assets related to the defaulted loan, and is available for additional fees related to the defaulted loan.

## Guaranteed Loans Outstanding

| As of September 30 | Outstanding Principal of Guaranteed Loans, Face Value | Amount of Outstanding Principal Guaranteed |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Guaranteed Loans Outstanding** | | |
| 1. Military Housing Privatization Initiative | $ 0 | $ 0 |
| 2. The Armament Retooling & Manufacturing Support Initiative | 4,094 | 3,480 |
| 3. Foreign Military Liquidating Account | 0 | 0 |
| **4. Total** | $ 4,094 | $ 3,480 |
| **2007** | | |
| **New Guaranteed Loans Disbursed** | | |
| 1. Military Housing Privatization Initiative | $ 0 | $ 0 |
| 2. Armament Retooling & Manufacturing Support Initiative | 0 | 0 |
| 3. Foreign Military Liquidating Account | 0 | 0 |
| **4. Total** | $ 0 | $ 0 |
| **2006** | | |
| **New Guaranteed Loans Disbursed** | | |
| 1. Military Housing Privatization Initiative | $ 0 | $ 0 |
| 2. Armament Retooling & Manufacturing Support Initiative | 2,694 | 2,290 |
| 3. Foreign Military Liquidating Account | 0 | 0 |
| **4. Total** | $ 2,694 | $ 2,290 |

Outstanding Principal of Guaranteed Loans, Face Value is the principal amount of loans disbursed by third parties and guaranteed by the Army. The face value does not include any interest that is due to be paid on the debt instruments.

Amount of Outstanding Principal Guaranteed is the principal amount of loans disbursed by third parties and guaranteed by the Army less borrower collateral. The net amount represents the loan amount guaranteed by the Army.

The ARMS program currently manages two performing loans with a combined outstanding principal loan amount, face value of $4.1 million, and outstanding principal guaranteed in the amount of $3.5 million. Each of the loans is guaranteed at 85%.

The FY 2006 new guaranteed loans disbursement of $2.7 million represents an incremental disbursement on a loan guaranteed prior to the 2004 moratorium on new loans. There were no incremental disbursements in FY 2007. No new guaranteed loans were disbursed in FY 2007 or FY 2006.

## Liabilities for Post FY 1991 Loan Guarantees, Present Value

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Liabilities for Loan Guarantee Programs fromPre-FY 1992 (Allowance for Loss):** | | |
| 1. Foreign Military Liquidating Account | $ 0 | $ 0 |
| **2. Total Loan Guarantee Liability (Pre-FY 1992)** | $ 0 | $ 0 |
| **Liabilities for Loan Guarantee Programs Post-FY 1991 (Present Value):** | | |
| 3. Military Housing Privatization Initiative | $ 0 | $ 0 |
| 4. Armament Retooling & Manufacturing Support Initiative | 290 | 12,853 |
| **5. Total Loan Guarantee Liability (Post-FY 1991)** | $ 290 | $ 12,853 |
| **6. Total Loan Guarantee Liability** | $ 290 | $ 12,853 |

Liabilities for Loan Guarantee Programs Post-FY 1991 represent the present value of the estimated cash inflows less cash outflows of non-acquired loan guarantees. The $290 thousand in loan guarantee liability represents the estimated long-term cost of the currently performing loans to the U.S. Government for the ARMS Initiative Loan Guarantee Program.

## Subsidy Expense for Loan Guarantees by Program

As of September 30

*(Amounts in thousands)*

| 2007 | Interest Differential | Defaults | Fees | Other | Total |
|---|---|---|---|---|---|
| **1. New Loan Guarantees Disbursed:** | | | | | |
| Military Housing Privatization Initiative | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Armament Retooling & Manufacturing Support Initiative | 0 | 0 | 0 | 0 | 0 |
| **Total** | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |

| 2006 | Interest Differential | Defaults | Fees | Other | Total |
|---|---|---|---|---|---|
| **2. New Loan Guarantees Disbursed:** | | | | | |
| Military Housing Privatization Initiative | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Armament Retooling & Manufacturing Support Initiative | 0 | 0 | 0 | 0 | 0 |
| **Total** | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |

| 2007 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
|---|---|---|---|---|---|
| **3. Modifications and Reestimates:** | | | | | |
| Military Housing Privatization Initiative | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Armament Retooling & Manufacturing Support Initiative | 0 | 2,202 | (1,088) | 1,114 | 1,114 |
| **Total** | $ 0 | $ 2,202 | $ (1,088) | $ 1,114 | $ 1,114 |

| 2006 | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total |
|---|---|---|---|---|---|
| **4. Modifications and Reestimates:** | | | | | |
| Military Housing Privatization Initiative | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Armament Retooling & Manufacturing Support Initiative | 0 | 564 | 11,532 | 12,096 | 12,096 |
| **Total** | $ 0 | $ 564 | $ 11,532 | $ 12,096 | $ 12,096 |

| | 2007 | 2006 |
|---|---|---|
| **5. Total Loan Guarantee:** | | |
| Military Housing Privatization Initiative | $ 0 | $ 0 |
| Armament Retooling & Manufacturing Support Initiative | 1,114 | 12,096 |
| **Total** | $ 1,114 | $ 12,096 |

## Subsidy Rates for Loan Guarantees by Program

| As of September 30 | Interest Supplements | Defaults | Fees and other Collections | Other | Total |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | | | | | |
| **Budget Subsidy Rates for Loan Guarantees:** | | | | | |
| 1. Military Housing Privatization Initiative | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| 2. Armament Retooling & Manufacturing Support Initiative | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

The Subsidy Rates for Loan Guarantees table displays subsidy rates applied to new guaranteed loans. Since no new loan guarantees for the ARMS Initiative Program originated in FY 2007 or FY 2006, the table properly presents 0.00% subsidy rates. In an effort to preclude additional Army General Fund loan liability, the Assistant Secretary of the Army (Acquisition Logistics and Technology) instituted an ARMS loan guarantee moratorium in 2004. The Army continues to operate under the moratorium, and does not anticipate initiating new loan guarantees.

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Beginning Balance, Changes, and Ending Balance:** | | |
| **1. Beginning Balance of the Loan Guarantee Liability** | $ 12,853 | $ 12,394 |
| **2. Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component** | | |
| A. Interest Supplement Costs | $ 0 | $ 0 |
| B. Default Costs (Net of Recoveries) | 0 | 0 |
| C. Fees and Other Collections | 0 | 0 |
| D. Other Subsidy Costs | 0 | 0 |
| E. Total of the above Subsidy Expense Components | $ 0 | $ 0 |
| **3. Adjustments** | | |
| A. Loan Guarantee Modifications | $ 0 | $ 0 |
| B. Fees Received | 0 | 0 |
| C. Interest Supplements Paid | 0 | 0 |
| D. Foreclosed Property and Loans Acquired | 2,290 | 0 |
| E. Claim Payments to Lenders | (15,310) | (11,436) |
| F. Interest Accumulation on the Liability Balance | (657) | (201) |
| G. Other | 0 | 0 |
| H. Total of the above Adjustments | $ (13,677) | $ (11,637) |
| **4. Ending Balance of the Loan Guarantee Liability before Reestimates** | $ (824) | $ 757 |
| **5. Add or Subtract Subsidy Reestimates by Component** | | |
| A. Interest Rate Reestimate | 2,202 | 564 |
| B. Technical/default Reestimate | (1,088) | 11,532 |
| C. Total of the above Reestimate Components | $ 1,114 | $ 12,096 |
| **6. Ending Balance of the Loan Guarantee Liability** | $ 290 | $ 12,853 |

The loan guarantee reconciliation displays the calculation for the ending balance of the loan guarantee liability. The interest accumulation on the liability balance represents actual accrued interest earned from the U.S. Treasury at September 30, 2007.

## Administrative Expenses

Administrative expenses are limited to separately identified expenses incurred for administering guaranteed loans. Administrative expenses for the ARMS Initiative include fees paid to the U.S. Department of Agriculture RBS for administering the loan guarantees under the ARMS Initiative, which is a joint program. There were no administrative expenses processed in FY 2007 or FY 2006.



# Note 9. Inventory and Related Property

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Inventory, Net** | $ 0 | $ 94,400 |
| **2. Operating Materiels & Supplies, Net** | 33,938,649 | 38,544,639 |
| **3. Stockpile Materiels, Net** | 0 | 0 |
| **4. Total** | $ 33,938,649 | $ 38,639,039 |

## Inventory, Net

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | Inventory, Net | Valuation Method |
| **1. Inventory Categories** | | | | | |
| A. Available and Purchased for Resale | $ 0 | $ 0 | $ 0 | $ 17,995 | LAC |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 0 | 0 | 0 | 0 | NRV |
| D. Raw Materials | 0 | 0 | 0 | 0 | |
| E. Work in Process | 0 | 0 | 0 | 76,405 | |
| F. Total | $ 0 | $ 0 | $ 0 | $ 94,400 | |

**Legend for Valuation Methods:**
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value
O = Other
SP = Standard Price
AC = Actual Cost

The Army General Fund has been actively closing out the Conventional Ammunition Working Capital Fund (CAWCF) and its inventory since 1998. During FY 2007, the residual balance was reconciled and expensed bringing the CAWCF inventory balance to zero. The inventory of ammunitions is now fully reported in Operating Materiels and Supplies.

## Operating Materiels and Supplies, Net

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| (Amounts in thousands) | OM&S Gross Value | Revaluation Allowance | OM&S, Net | OM&S, Net | Valuation Method |
| **1. OM&S Categories** | | | | | |
| A. Held for Use | $ 33,938,649 | $ 0 | $ 33,938,649 | $ 38,544,639 | LAC |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 344,548 | (344,548) | 0 | 0 | SP |
| D. Total | $ 34,283,197 | $ (344,548) | $ 33,938,649 | $ 38,544,639 | |

**Legend for Valuation Methods:**
Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses
NRV = Net Realizable Value
O = Other
SP = Standard Price
AC = Actual Cost

### Relevant Information for Comprehension

Operating Materiels and Supplies (OM&S) includes ammunition, tactical missiles and related spare and repair parts. The category, Held for Use, includes all Materiel able to be issued. Economically repairable Materiel is categorized as held for repair.

Managers determine which items are more costly to repair than to replace. Items retained for management purposes are coded condemned. The net value of these items is zero, and is shown as Excess, Obsolete and Unserviceable.

The Army General Fund establishes an allowance for excess, obsolete, and unserviceable OM&S and inventory at 100% of the carrying amount in accordance with DoD policy.

The value of the Army's Government Furnished Materiel and Contractor Acquired Materiel in the hands of contractors is normally not included in the OM&S values reported above. The DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information in other existing logistics systems.

There are no restrictions on the use, repair or disposition of OM&S.

## Stockpile Materiels, Net

Not Applicable.

# Note 10. General PP&E, Net

| As of September 30 | | | 2007 | | | 2006 |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value | Prior FY Net Book Value |
| **1. Major Asset Classes** | | | | | | |
| A. Land | N/A | N/A | $ 523,766 | N/A | $ 523,766 | $ 515,882 |
| B. Buildings, Structures, and Facilities | S/L | 20 Or 40 | 48,528,857 | $ (30,347,146) | 18,181,711 | 16,330,392 |
| C. Leasehold Improvements | S/L | lease term | 26,281 | (13,772) | 12,509 | 3,726 |
| D. Software | S/L | 2-5 Or 10 | 504,065 | (147,276) | 356,789 | 289,697 |
| E. General Equipment | S/L | 5 or 10 | 3,913,888 | (1,799,313) | 2,114,575 | 1,130,196 |
| F. Military Equipment | S/L | Various | 102,951,201 | (40,243,966) | 62,707,235 | 58,869,805 |
| G. Assets Under Capital Lease | S/L | lease term | 166,617 | (154,223) | 12,394 | 19,506 |
| H. Construction-in- Progress | N/A | N/A | 7,033,929 | N/A | 7,033,929 | 7,064,762 |
| I. Other | | | 25,111 | 0 | 25,111 | 19,884 |
| J. Total General PP&E | | | $ 163,673,715 | $ (72,705,696) | $ 90,968,019 | $ 84,243,850 |

[1] Note 15 for additional information on Capital Leases

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

### Relevant Information for Comprehension

Other includes the projected value of timber reserves.

### Military Equipment

In accordance with the requirements of SFFAS No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment," beginning in FY 2003, the Army capitalized military equipment into General PP&E at estimated historical cost using information obtained from the Bureau of Economic Analysis (BEA). In FY 2006, the Army General Fund began valuing these assets using actual expenditure data and moved away from the BEA cost estimation methodology. The move from the BEA model was made at 3rd Quarter, FY 2006, thus FY 2007 values for military equipment above are based on actual data.

### Other Disclosures

Currently, there are no restrictions on the use/convertibility of General PP&E outside the continental United States.

### Other Information Related to Heritage Assets and Stewardship Land

The mission of the Department of Defense, including the Army, is to provide the military forces needed to deter war and protect the security of the United States by organizing, training, supplying, equipping and mobilizing forces for assignment in support of that mission. Executing this mission requires efficient and effective use of resources in a manner that ensures operational and environmental sustainability, while respecting the history and heritage that reflect and support the military mission. The Army has stewardship responsibilities for heritage assets that date not only from the military history of the land, but from prior historic occupations. The Army relies upon heritage assets, such as historic buildings and stewardship land for daily use in administration, housing and training soldiers. Those heritage assets not currently employed as "multi-use," such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities and the nation - the heritage that the Department of Defense defends.

The Army's policy for managing cultural resources and heritage assets are published in Army Regulations 200-4 and 870-20. These policies provide in-depth procedures for managing the Army's cultural resources and museum collections. The Army Regulations take into account the Army's responsibilities under various legal compliance requirements, such as the National Historic Preservation Act, the Native American Graves Protection and Repatriation Act, the National Environmental Policy Act and the Archeological Resources Protection Act, among others. The regulations provide guidance to all active Army, Army Reserves, and National Guard units and installations as to the appropriate policies, responsibilities, procedures and requirements affecting heritage assets. These policies are designed to ensure that Army installations and commanders make informed decisions regarding the cultural resources under their stewardship in compliance with public laws, in support of the military mission and consistent with sound principles of cultural resource management.

Heritage assets are items that are distinguished by one or more of the following characteristics:

1. Historical or natural significance;
2. Cultural, educational, or artistic importance; or
3. Significant architectural characteristics.

Heritage assets are expected to be preserved. The DoD policy requires that heritage assets be reported within the following categories:

Museums: Buildings that house collection type items including artwork, archeological artifacts, archival materials and other historical artifacts. The primary use of such buildings shall be the preservation, maintenance and display of the collection type Heritage Assets.

Monuments and Memorials: Sites and structures built to honor and preserve the memory of significant individuals and/or events in history.

Cemeteries: Land on which gravesites of prominent historical figures are located.

Archeological Sites: Land on which items of significance are located.

Buildings and Structures: Includes buildings and structures that are listed on, or eligible for listing, on the National Register of Historic Places, including Multi-use Heritage Assets. These are buildings other than those used as museums.

Major Collections: Significant collections that are maintained outside of a museum.

## Assets Under Capital Lease

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Entity as Lessee, Assets Under Capital Lease** | | |
| A. Land and Buildings | $ 166,071 | $ 166,071 |
| B. Equipment | 546 | 546 |
| C. Accumulated Amortization | (154,223) | (147,111) |
| D. Total Capital Leases | $ 12,394 | $ 19,506 |

# Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Intragovernmental Liabilities** | | |
| A. Accounts Payable | $ 0 | $ 0 |
| B. Debt | 0 | 0 |
| C. Other | 459,482 | 472,874 |
| D. Total Intragovernmental Liabilities | $ 459,482 | $ 472,874 |
| **2. Nonfederal Liabilities** | | |
| A. Accounts Payable | $ 196,499 | $ 96,276 |
| B. Military Retirement and Other Federal Employment Benefits | 1,483,177 | 1,461,098 |
| C. Environmental Liabilities | 43,302,065 | 41,662,756 |
| D. Other Liabilities | 4,911,899 | 4,493,222 |
| E. Total Nonfederal Liabilities | $ 49,893,640 | $ 47,713,352 |
| **3. Total Liabilities Not Covered by Budgetary Resources** | $ 50,353,122 | $ 48,186,226 |
| **4. Total Liabilities Covered by Budgetary Resources** | $ 19,871,852 | $ 22,082,464 |
| **5. Total Liabilities** | $ 70,224,974 | $ 70,268,690 |

### Intragovernmental Liabilities

Intragovernmental Liabilities, Other consists of unfunded workmen's compensation liability recognized in accordance with the Federal Employees' Compensation Act, unemployment compensation and miscellaneous receipt accounts custodial liability.

### Nonfederal Liabilities



Nonfederal Other Liabilities, Other consists of employer contributions and payroll taxes, contingent liabilities, contract holdbacks and custodial liabilities for Iraqi seized cash and the Development Fund for Iraq.

### Other Disclosures

Military Retirement and Other Federal Employment Benefits not covered by budgetary resources is comprised of various employee actuarial liabilities. These liabilities are primarily comprised of Federal Employee Compensation Act benefits liability of $1.5 billion. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

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

## Note 12. Accounts Payable

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Accounts Payable | Interest, Penalties, and Administrative Fees | Total | Total |
| **1. Intragovernmental Payables** | $ 1,729,904 | $ N/A | $ 1,729,904 | $ 1,593,783 |
| **2. Non-Federal Payables (to the Public)** | 9,108,477 | 74 | 9,108,551 | 10,884,262 |
| **3. Total** | $ 10,838,381 | $ 74 | $ 10,838,455 | $ 12,478,045 |

### Other Information Related to Accounts Payable

The Army General Fund systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable and unearned revenue. Accounts payable were adjusted by reclassifying between federal and nonfederal accounts payable.

## Note 13. Debt

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Beginning Balance | Net Borrowing | Ending Balance | Net Borrowing | Ending Balance |
| **1. Agency Debt (Intragovernmental)** | | | | | |
| A. Debt to the Treasury | $ 11,404 | $ 15,302 | $ 26,706 | $ 11,404 | $ 11,404 |
| B. Debt to the Federal Financing Bank | 0 | 0 | 0 | 0 | 0 |
| C. Total Agency Debt | $ 11,404 | $ 15,302 | $ 26,706 | $ 11,404 | $ 11,404 |
| **2. Total Debt** | $ 11,404 | $ 15,302 | $ 26,706 | $ 11,404 | $ 11,404 |

The Army General Fund, by means of Armament Retooling and Manufacturing Support (ARMS) Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. When a borrower defaults on a guaranteed loan, the Army General Fund executes borrowing authority with the U.S. Treasury to pay the lender the outstanding principal guaranteed resulting in a debt with the U.S. Treasury. The total debt of $26.7 million consists of interest and principal payments due to the U.S. Treasury for two ARMS loan defaults.

# Note 14. Environmental Liabilities and Disposal Liabilities

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Current Liability | Noncurrent Liability | Total | Total |
| **1. Environmental Liabilities--Nonfederal** | | | | |
| A. Accrued Environmental Restoration Liabilities | | | | |
| 1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) | $ 377,052 | $ 2,499,485 | $ 2,876,537 | $ 2,919,243 |
| 2. Active Installations—Military Munitions Response Program (MMRP) | 30,183 | 3,197,716 | 3,227,899 | 3,317,790 |
| 3. Formerly Used Defense Sites—IRP and BD/DR | 151,486 | 3,662,513 | 3,813,999 | 4,169,579 |
| 4. Formerly Used Defense Sites—MMRP | 89,198 | 14,607,590 | 14,696,788 | 14,797,277 |
| B. Other Accrued Environmental Liabilities—Active Installations | | | | |
| 1. Environmental Corrective Action | 23,534 | 545,089 | 568,623 | 372,012 |
| 2. Environmental Closure Requirements | 2,759 | 189,718 | 192,477 | 96,847 |
| 3. Environmental Response at Operational Ranges | 34,207 | 148,861 | 183,068 | 304,086 |
| 4. Other | 0 | 46,557 | 46,557 | 35,676 |
| C. Base Realignment and Closure (BRAC) | | | | |
| 1. Installation Restoration Program | 182,044 | 612,211 | 794,255 | 523,686 |
| 2. Military Munitions Response Program | 31,062 | 845,348 | 876,410 | 800,312 |
| 3. Environmental Corrective Action / Closure Requirements | 16,347 | 96,747 | 113,094 | 32,276 |
| 4. Other | 0 | 0 | 0 | 149,165 |
| D. Environmental Disposal for Weapons Systems Programs | | | | |
| 1. Nuclear Powered Aircraft Carriers | 0 | 0 | 0 | 0 |
| 2. Nuclear Powered Submarines | 0 | 0 | 0 | 0 |
| 3. Other Nuclear Powered Ships | 0 | 0 | 0 | 0 |
| 4. Other National Defense Weapons Systems | 0 | 0 | 0 | 0 |
| 5. Chemical Weapons Disposal Program | 1,458,413 | 16,850,231 | 18,308,644 | 17,457,288 |
| 6. Other | 0 | 0 | 0 | 0 |
| **2. Total Environmental Liabilities** | $ 2,396,285 | $ 43,302,066 | $ 45,698,351 | $ 44,975,237 |

## Environmental Disclosures

Not Applicable.

### Other Disclosures

**Others Category Disclosure Comparative Table**

| *(Amounts in thousands)* | 2007 | 2006 |
|---|---|---|
| **Other Accrued Environmental Costs - Other** | | |
| Low Level Radio Active Waste | $46,357 | $35,676 |
| **Base Realignment and Closure - Other** | | |
| BRAC Unliquidated Liabilities that cannot be categorized within BRAC program lines on Note 14 | | 149,165 |
| **Total** | **$46,357** | **$184,841** |



### Applicable Laws and Regulations

The Army General Fund is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other past activity prior to 1986 from hazardous substances and wastes that created a public health or environmental risk and prior to FY 2003 from unexploded ordnance (UXO), discarded military munitions and munitions constituents at other than operational ranges, under the Defense Environmental Restoration Program (DERP), established by Section 211 of the Superfund Amendments and Reauthorization Act of 1986 codified in Title 10 of the United States Code 2701. The Army General Fund is also required to clean up contamination resulting from waste disposal practices, leaks, spills and other activity after 1986 from hazardous substances and wastes and after FY 2003 from UXO, discarded military munitions and munitions constituents migrating from an operational range, under the Army Compliance Cleanup Program.

The Army is required to destroy the chemical stockpile and nonstockpile, as part of the Chemical Demilitarization Program. The 1986 Defense Authorization Act (Public Law (PL) 99-145, as amended by subsequent acts), directed the DoD to destroy the unitary chemical stockpile while providing for maximum protection of the environment, public and personnel involved in the destruction effort. The 1993 Defense Authorization Act (PL 102-484) required the establishment of the NonStockpile Chemical Material Project to safely dispose of all nonstockpile chemical material. The destruction operations being carried out using the facilities and equipment developed and fielded as part of the program are also subject to numerous federal and state environmental regulations.

Applicable laws are as follows for the DERP, NonDERP, Low Level Radioactive Waste and the BRAC programs:

- Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)
- Superfund Amendments and Reauthorization Act
- Clean Water Act
- Safe Drinking Water Act
- Clean Air Act
- Resource Conversation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Low Level Radioactive Waste Policy Amendments
- National Defense Authorization Acts

**Types of Environmental Liabilities and Disposal Liabilities Identified**

The Army General Fund has environmental cleanup requirements for the DERP sites at active installations, BRAC installations, Formerly Used Defense Sites, nonDERP sites at active installations, weapon systems programs and chemical weapons disposal programs. The DERP and nonDERP sites are required to clean up contamination in coordination with regulatory agencies, other responsible parties and current property owners. Environmental disposal for weapons systems programs consists of chemical weapons disposal, including the destruction of the entire U.S stockpile of chemical agents and munitions and disposal of nonstockpile chemical material. This includes binary chemical weapons, old chemical weapons recovered as part of remediation and recovery operations and miscellaneous materiel associated with chemical weapon production, storage, testing, maintenance and disposal.

**Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods**

The Army General Fund uses engineering estimates and independently validated models to estimate environmental liabilities. The Remedial Action Cost Engineering Requirements (RACER) is the Army's preferred model. The Army General Fund relies upon the Air Force, which is the RACER executive agent, to validate the model in accordance with DoD Instruction 5000.61 and primarily uses the model to estimate the liabilities based on data received during a preliminary assessment and initial site investigation. The Army primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project. Once the environmental cost estimates are complete, the Army complies with accounting standards to assign costs to current operating periods.

In compliance with accounting standards, the Army General Fund expenses the costs for cleanup associated with general property, plant and equipment (PP&E) placed into service prior to October 1, 1997 unless the costs are intended to be recovered through user charges. If the costs are recovered through user charges, then the Army General Fund expenses the portion of the asset's useful life that has passed since the general PP&E was placed into service and systematically recognizes the remaining cost over the life of the asset.

For General PP&E placed into service after September 30, 1997, the Army General Fund is required to recognize an environmental liability when General PP&E is placed into service and expense the associated environmental costs systematically over the life of the asset. The Army currently does not recognize an environmental liability when General PP&E is placed into service.

For the Chemical Weapons Disposal Programs, the basis for calculating environmental liabilities is an estimate developed using parametric, analogous or engineering methodologies, as appropriate. A component of the estimate is based on analysis of historical processing rates with down time adjustments. The cost methodology is based on the historical costs of the project and utilizes the Army cost analysis community directed Automated Cost Estimating Integrated Tool software as the platform for cost modeling. To the greatest extent possible, actual costs are broken down to produce a site-specific model based on actual or analogous costs. Inclusion of site-specific schedules in the model results in the current working estimate. The estimate and its methodology have been independently reviewed, supported and approved by the Deputy Assistant Secretary of the Army (Cost and Economics) staff, as well as the Army Cost Review Board, the Assistant Secretary of the Army (Financial Management and Comptroller) and the Army Acquisition Executive.

**Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations**

The Army General Fund had changes in estimates resulting from overlooked or previously unknown contaminants, better site characterization with sampling, reestimation based on different assumptions and lessons learned. Environmental liabilities can also change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies and advances in technology.

**Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities**

The environmental liabilities for the Army General Fund are based on accounting estimates, which require certain judgments and assumptions that are believed to be reasonable based upon information available to us at the time of calculating the estimates. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if further investigation of the environmental sites discloses contamination different than known at the time of the estimates.



For the environmental liability associated with the destruction of chemical weapons, the schedules and cost estimates in the approved baseline are based on the best information available and have been through the formal Acquisition Program Baseline approval process at the time of report submission. It should be noted that they are subject to fact of life changes and impacts from program risks and uncertainties inherent to the task of chemical demilitarization and the political sensitivity of the program. These risks may include processing changes required to meet operational schedules due to the deteriorating condition of the stockpile and additional schedule time and/or cost to address changes in environmental laws or Congressional requirements.

In addition to the liabilities reported above, the Army General Fund is uncertain regarding the extent of the liabilities at installations that are realigning or closing as a result of the FY 2005 BRAC round. The Army General Fund is in the process of determining the extent of environmental liabilities at bases due to realign or close; in particular those liabilities associated with unexploded ordnance on training ranges that are due to realign or close.

The Army General Fund is also uncertain regarding the extent of NonDERP closure environmental liabilities at Active installations. The Army General Fund is in the process of determining the extent of environmental liabilities associated with NonDERP closure requirements.

In addition, the Army General Fund reports the costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Army General Fund is currently unable to provide a reasonable estimate because the extent of restoration required is not known.

**Other Accrued Environmental Costs, Other consists of Low Level Radioactive Waste.**

The Army General Fund reports zeros in the Environmental Disclosure table. The Army General Fund is unable to systematically report and gather information for items presented above. These reporting deficiencies result from system and internal control weaknesses. The Army General Fund will continue coordination with the Office of the Under Secretary of Defense (Comptroller) to address these deficiencies and outline specific additional tasks and milestones in the Army Chief Financial Officers Strategic Plan by 4th Quarter, FY 2010.

## Note 15. Other Liabilities

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Current Liability | Noncurrent Liability | Total | Total |
| **1. Intragovernmental** | | | | |
| A. Advances from Others | $ 134,514 | $ 0 | $ 134,514 | $ 155,613 |
| B. Deposit Funds and Suspense Account Liabilities | 243,120 | 0 | 243,120 | 704,266 |
| C. Disbursing Officer Cash | 2,183,051 | 0 | 2,183,051 | 1,784,811 |
| D. Judgment Fund Liabilities | 90 | 0 | 90 | 0 |
| E. FECA Reimbursement to the Department of Labor | 139,098 | 140,603 | 279,701 | 275,285 |
| F. Other Liabilities | 244,977 | 0 | 244,977 | 261,321 |
| G. Total Intragovernmental Other Liabilities | $ 2,944,850 | $ 140,603 | $ 3,085,453 | $ 3,181,296 |
| **2. Nonfederal** | | | | |
| A. Accrued Funded Payroll and Benefits | $ 1,258,178 | $ 0 | $ 1,258,178 | $ 918,321 |
| B. Advances from Others | 1,405,272 | 0 | 1,405,272 | 1,222,335 |
| C. Deferred Credits | 0 | 0 | 0 | 0 |
| D. Deposit Funds and Suspense Accounts | (2) | 0 | (2) | 0 |
| E. Temporary Early Retirement Authority | 0 | 0 | 0 | 0 |
| F. Nonenvironmental Disposal Liabilities | | | | |
| (1) Military Equipment (Nonnuclear) | 0 | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 1,284,052 | 1,284,052 | 1,217,768 |
| G. Accrued Unfunded Annual Leave | 3,277,007 | 0 | 3,277,007 | 3,078,597 |
| H. Capital Lease Liability | 5,814 | 14,854 | 20,668 | 33,053 |
| I. Other Liabilities | 1,087,495 | 759,872 | 1,847,367 | 1,678,683 |
| J. Total Nonfederal Other Liabilities | $ 7,033,764 | $ 2,058,778 | $ 9,092,542 | $ 8,148,757 |
| **3. Total Other Liabilities** | $ 9,978,614 | $ 2,199,381 | $ 12,177,995 | $ 11,330,053 |

### Intragovernmental

Intragovernmental Other Liabilities, Other consists of Advances from Others; Deposit Funds and Suspense Accounts; Disbursing Officer Cash; unemployment compensation; cancelled accounts receivable; employee benefits for retirement, health and life insurance; and the education benefits trust fund.

**Nonfederal**

Nonfederal Other Liabilities, Other consists of employer contributions and payroll taxes, contingent liabilities, contract holdbacks and custodial liabilities for Iraqi seized cash and the development fund for Iraq.

Contingent liabilities include $452.6 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance of a satisfactory product. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payment is made, thereby, protecting taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The Army General Fund is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance of a satisfactory product. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the Department and the amount of potential future payments are estimable, the Department has recognized liability for estimated future payments, which are conditional pending delivery and Government acceptance of a satisfactory product.

## Capital Lease Liability

| As of September 30 | 2007 | | | | 2006 |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Asset Category | | | | |
| | Land and Buildings | Equipment | Other | Total | Total |
| **1. Future Payments Due** | | | | | |
| A. 2007 | $ 0 | $ 0 | $ 0 | $ 0 | $ 18,158 |
| B. 2008 | 8,529 | 156 | 0 | 8,685 | 8,685 |
| C. 2009 | 5,376 | 93 | 0 | 5,469 | 5,469 |
| D. 2010 | 5,376 | 0 | 0 | 5,376 | 5,376 |
| E. 2011 | 4,510 | 0 | 0 | 4,510 | 0 |
| F. 2012 | 2,413 | 0 | 0 | 2,413 | 0 |
| G. After 5 Years | 1,759 | 0 | 0 | 1,759 | 8,682 |
| H. Total Future Lease Payments Due | $ 27,963 | $ 249 | $ 0 | $ 28,212 | $ 46,370 |
| I. Less: Imputed Interest Executory Costs | 7,486 | 57 | 0 | 7,543 | 13,317 |
| J. Net Capital Lease Liability | $ 20,477 | $ 192 | $ 0 | $ 20,669 | $ 33,053 |
| **2. Capital Lease Liabilities Covered by Budgetary Resources** | | | | $ 14,976 | $ 22,666 |
| **3. Capital Lease Liabilities Not Covered by Budgetary Resources** | | | | $ 5,692 | $ 10,387 |



# Note 16. Commitments and Contingencies

**Relevant Information for Comprehension**

The Army General Fund is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters and contractual bid protests.

We have accrued contingent liabilities for legal actions where the Army's Office of the General 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 Judgment Fund.

## Nature of Contingency

The FY 2007 Army Legal Representation Letter outlines claims against the Army General Fund totaling $1.3 trillion for which the Army Office of General Counsel is unable to express an opinion. The historical payout percentage for these cases is less than 1%, or $12.9 billion. To determine the historical payout, the Army Office of General Counsel divides the total amount reported as a payout in the fiscal year by the total amount of claimed in the Army Legal Representation Letter.

The Army General Fund has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army General Fund's financial statements nor reported in the FY 2007 Army Legal Representation Letter. As of September 30, 2007, the Army General Fund had $446.8 million in claims considered reasonably possible. These contingent liabilities and estimates are presented in the following table. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, the Army General Fund has coordinated with Army Office of General Counsel to ensure that estimates agree with the legal representation letters and management summary schedule.

*(Amounts in thousands)*

| Title of Contingent Liabilities | Estimate |
|---|---|
| Army Contract Appeals | $167,375 |
| Army Environmental Law Division | 103,100 |
| Administrative Tort and European Environmental Claims | 100,000 |
| Litigation Division | 75,737 |
| Network Enterprise Technology Command | 400 |
| Army Personnel Claims | 216 |
| **Total** | $446,828 |

## Other Information Pertaining to Commitments

The Army General Fund has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations, undelivered orders and cancelled accounts payable. The amount of contractual commitments for 4th Quarter, FY 2007 is presented in the following schedule.

*(Amounts in thousands)*

| Title of Contractual Commitments | |
|---|---|
| Long-term lease obligations | $20,668 |
| Undelivered orders | $108,380,690 |
| Cancelled accounts payable | $196,499 |

The Army General Fund is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, the Army General Fund does not have an automated system by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present Army General Fund contingent liabilities.

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to note 15 for further details.

# Note 17. Military Retirement and Other Federal Employment Benefits

| As of September 30 | 2007 | | | | 2006 |
|---|---|---|---|---|---|
| (Amounts in thousands) | Present Value of Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liability | Present Value of Benefits |
| **1. Pension and Health Actuarial Benefits** | | | | | |
| A. Military Retirement Pensions | $ 0 | | $ 0 | $ 0 | $ 0 |
| B. Military Retirement Health Benefits | 0 | | 0 | 0 | 0 |
| C. Military Medicare-Eligible Retiree Benefits | 0 | | 0 | 0 | 0 |
| D. Total Pension and Health Actuarial Benefits | $ 0 | | $ 0 | $ 0 | $ 0 |
| **2. Other Actuarial Benefits** | | | | | |
| A. FECA | $ 1,483,177 | 5.31% | $ 0 | $ 1,483,177 | $ 1,461,098 |
| B. Voluntary Separation Incentive Programs | 0 | | 0 | 0 | 0 |
| C. DoD Education Benefits Fund | 0 | | 0 | 0 | 0 |
| D. Total Other Actuarial Benefits | $ 1,483,177 | | $ 0 | $ 1,483,177 | $ 1,461,098 |
| **3. Other Federal Employment Benefits** | $ 0 | | $ 0 | $ 0 | $ 0 |
| **4. Total Military Retirement and Other Federal Employment Benefits:** | $ 1,483,177 | | $ 0 | $ 1,483,177 | $ 1,461,098 |

Actuarial Cost Method Used:
Assumptions:
Market Value of Investments in Market-based and Marketable Securities:

### Federal Employees Compensation Act (FECA)

Actuarial Cost Method Used: The Army's actuarial liability for Workers' Compensation benefits is developed by the Department of Labor and provided to the Army General Fund each fiscal year end. The liability includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments.

Assumptions: The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors provided by the Department of Labor are also applied to the calculation of projected future benefits. The estimated actuarial liability is updated only at the end of each fiscal year.

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



| Intragovernmental Costs and Exchange Revenue<br>As of September 30 | 2007 | 2006 |
|---|---|---|
| (Amounts in thousands) | | |
| 1. Intragovernmental Costs | $ 46,435,946 | $ 43,852,069 |
| 2. Public Costs | 132,310,910 | 131,165,204 |
| **3. Total Costs** | $ 178,746,856 | $ 175,017,273 |
| 4. Intragovernmental Earned Revenue | $ (8,139,817) | $ (9,063,319) |
| 5. Public Earned Revenue | (1,683,378) | (1,340,202) |
| **6. Total Earned Revenue** | $ (9,823,195) | $ (10,403,521) |
| **7. Net Cost of Operations** | $ 168,923,661 | $ 164,613,752 |

**Definitions**

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal government.

Public costs and revenue are exchange transactions made between the reporting entity and a nonfederal entity.

**Other Information Regarding Costs**

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

The amounts presented in the Consolidated Statement of Net Cost are based on funding, obligation, accrual and disbursing transactions, which are not always recorded using accrual accounting. The Army General Fund's systems do not always record the transactions on an accrual basis as is required by the generally accepted accounting principles. The information presented also includes data from nonfinancial feeder systems to capture all cost and financing sources for the Army General Fund.

**Additional Disclosures**

The Army General Fund systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. Additional expenses are accrued when the Army General Fund balance is lower than the other DoD entity.

The Army General Fund accounting system does not capture information relative to Heritage Assets separately and distinctly from normal operations. The Army General Fund is not able to separately identify the costs of acquiring, constructing, improving, reconstructing or renovating heritage assets. The Army Chief Financial Officers Strategic Plan outlines tasks to separately identify and report costs associated with Heritage Assets by 1st Quarter, FY 2010.

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

| As of September 30 | 2007 | | 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| **1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance** | | | | |
| A. Changes in Accounting Standards | $ (3,780,694) | $ 3,780,694 | $ 0 | $ 0 |
| B. Errors and Omissions in Prior Year Accounting Reports | 0 | 0 | (42,829,096) | 0 |
| **C. Total Prior Period Adjustments** | $ (3,780,694) | $ 3,780,694 | $ (42,829,096) | $ 0 |
| **2. Imputed Financing** | | | | |
| A. Civilian CSRS/FERS Retirement | $ 287,082 | $ 0 | $ 306,148 | $ 0 |
| B. Civilian Health | 600,060 | 0 | 561,369 | 0 |
| C. Civilian Life Insurance | 1,843 | 0 | 1,784 | 0 |
| D. Judgment Fund | 65,998 | 0 | 94,807 | 0 |
| E. IntraEntity | 0 | 0 | 0 | 0 |
| **F. Total Imputed Financing** | $ 954,983 | $ 0 | $ 964,108 | $ 0 |

**Prior Period Adjustments: Changes in Accounting Standards**

The Army GF recognized a $3.8 billion prior period adjustment in FY 2007, which decreased cumulative results of operations and increased unexpended appropriations by the same amount. The adjustment relates to a change in reporting parent/child allocation transfers, and is presented as a change in accounting principle. The change affects the Balance Sheet and the Statement of Changes in Net Position. In accordance with the exceptions identified in Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," the Army is required to report all financial activity of the Iraq Relief and Reconstruction Fund carried out on behalf of the Executive Office of the President. Previous OMB guidance required the child to report material financial activity except for budgetary transactions. Effective FY 2007, OMB requires Army to also report this budgetary activity resulting in this prior period adjustment.

**Prior Period Adjustments: Errors and Omissions in Prior Year Accounting Reports**

In the Statement of Changes in Net Position, all offsetting balances (i.e., transfers-in and transfers out, revenues and expenses) for intraDoD activity between earmarked and nonearmarked funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

**Cumulative Results of Operations**

Other Budgetary Financing Sources (All Other Funds) and Other Financing Sources (Other) represent adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. The net effect of these adjustments is reflected on Other Budgetary Financing Sources and Other Financing Sources on the Statement of Net Position.

**Unexpended Appropriations**

Appropriations Received (All Other Funds) on the Statement of Changes in Net Position does not agree with the Appropriations Received on the Statement of Budgetary Resources. The difference of $15.8 million is due to additional resources included in the Appropriation Received on the Statement of Budgetary Resources. Refer to Note 20 for additional details.

Earmarked Cumulative Results of Operations ending balance on the Statement of Changes in Net Position does not agree with the Earmarked Cumulative Results reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

## Note 20. Disclosures Related to the Statement of Budgetary Resources



| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | $ 108,380,690 | $ 80,977,698 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 0 | 11,404 |

**Undelivered Orders**

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds.

### Reporting of Appropriations Received

Appropriations received on the Statement of Budgetary Resources does not agree with appropriations received on the Statements of Changes in Net Position because of differences between proprietary and budgetary accounting concepts and reporting requirements. The differences are made up of the recording of receipts for trust and special funds and the appropriations anticipated indefinite accounts.

### Presentation of Statement of Budgetary Resources

The Statement of Budgetary Resources does not include eliminating entries because the statements are presented as combined.

### Breakdown of Apportionment Categories

Office of Management and Budget Circular A-136 specifically requires disclosure of the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment. Obligations incurred consists of $207.3 billion in Category A, Direct; $9.7 billion in Category B, Direct; $19.8 billion in Category A, Reimbursable; and $6.0 billion in Category B, Reimbursable. The nonbudgetary obligations are all Category A, Direct, $16.5 million. This disclosure agrees with the aggregate of the related information as reported on the Budgetary Execution Report and Obligations Incurred on the Statement of Budgetary Resources.

### Terms of Borrowing Authority

Borrowing authority is used for guaranteed loan defaults relating to the Armament Retooling and Manufacturing Support (ARMS) Initiative. This initiative is designed to encourage commercial use of inactive Army General Fund ammunition plants through many incentives for businesses willing to locate to a government ammunition production facility. The Army General Fund, by means of ARMS Initiative legislation, established a loan guarantee program to facilitate commercial firms' use of specified ammunition manufacturing facilities. The Army General Fund and Department of Agriculture Rural Business-Cooperative Service (RBS) established a Memorandum of Understanding for the RBS to administer the ARMS Initiative Loan Guarantee Program.

Available Borrowing Authority as of September 30, 2007, is $15.5 million.

This note has been modified to accurately report the remaining available balance of borrowing and contract authority. Previously, the Army General Fund reported the amount of the contract/borrowing authority that had initially been used and not subsequently replaced by reimbursement or appropriation.

# Note 21. Reconciliation of Net Cost of Operations to Budget

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated: | | |
| 1. Obligations incurred | $ 242,763,749 | $ 212,360,771 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (42,151,175) | (39,862,247) |
| 3. Obligations net of offsetting collections and recoveries | $ 200,612,574 | $ 172,498,524 |
| 4. Less: Offsetting receipts (-) | 807,967 | (783,002) |
| 5. Net obligations | $ 201,420,541 | $ 171,715,522 |
| Other Resources: | | |
| 6. Donations and forfeitures of property | 0 | 27,458 |
| 7. Transfers in/out without reimbursement (+/-) | 1,689,316 | 565,989 |
| 8. Imputed financing from costs absorbed by others | 954,983 | 964,108 |
| 9. Other (+/-) | (12,496,623) | (2,232,921) |
| 10. Net other resources used to finance activities | $ (9,852,324) | $ (675,366) |
| **11. Total resources used to finance activities** | $ 191,568,217 | $ 171,040,156 |
| | | |
| **Resources Used to Finance Items not Part of the Net Cost of Operations:** | | |
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | |
| 12a. Undelivered Orders (-) | $ (24,007,538) | $ (9,451,160) |
| 12b. Unfilled Customer Orders | 2,630,346 | 1,225,872 |
| 13. Resources that fund expenses recognized in prior Periods (-) | (61,901) | (294,876) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | (807,682) | 783,327 |
| 15. Resources that finance the acquisition of assets (-) | (15,269,738) | (30,921,685) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | 0 | 0 |
| 16b. Other (+/-) | 10,807,307 | 1,639,474 |
| **17. Total resources used to finance items not part of the Net Cost of Operations** | $ (26,709,206) | $ (37,019,048) |
| **18. Total resources used to finance the Net Cost of Operations** | $ 164,859,011 | $ 134,021,108 |
| | | |
| **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: | | |
| 19. Increase in annual leave liability | $ 0 | $ 100,742 |
| 20. Increase in environmental and disposal liability | 723,114 | 5,214,723 |
| 21. Upward/Downward reestimates of credit subsidy expense (+/-) | 0 | 0 |
| 22. Increase in exchange revenue receivable from the public (-) | 0 | 0 |
| 23. Other (+/-) | 590,196 | 223,353 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | $ 1,313,310 | $ 5,538,818 |
| Components not Requiring or Generating Resources: | | |
| 25. Depreciation and amortization | $ 3,970,548 | $ 23,824,451 |
| 26. Revaluation of assets or liabilities (+/-) | 49,629 | 404 |
| 27. Other (+/-) | | |
| 27a. Trust Fund Exchange Revenue | 0 | 0 |
| 27b. Cost of Goods Sold | 0 | 3,061 |
| 27c. Operating Material and Supplies Used | 0 | 0 |
| 27d. Other | (1,268,837) | 1,225,910 |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | $ 2,751,340 | $ 25,053,826 |
| **29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period** | $ 4,064,650 | $ 30,592,644 |
| **30. Net Cost of Operations** | $ 168,923,661 | $ 164,613,752 |



## Required Disclosures

The Reconciliation of Net Cost of Operations to Budget is intended to explain and define the relationship between net obligations from budgetary accounting and net cost of operations from proprietary accounting. The following Reconciliation of New Cost of Operations to Budget lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

Obligations Incurred,
Less: Spending Authority from Offsetting Collections and Recoveries,
Obligations Net of Offsetting Collections and Recoveries,
Less: Offsetting Receipts,
Net Obligations,
Undelivered Orders, and
Unfilled Customer Orders.

Other Resources – Other, and Other resources or adjustments to net obligated resources that do not affect net cost of operations – Other include Other Gains and Losses that represents adjustments to bring the proprietary accounts into agreement with the budgetary accounts. Due to system deficiencies, there are unreconciled differences between the budgetary and proprietary trial balances. In addition, Other resources or adjustments to net obligated resources that do not affect net cost of operations – Other includes transfers in and out without reimbursement.

Other Components Requiring or Generating Resources in Future Period represents increases in future funded expense for various liabilities such as the Federal Employment Compensation Act, Judgment Fund, Unemployment Compensation and Closed Accounts Payable.

Other Components not Requiring or Generating Resources is comprised of Other Expenses not Requiring Budgetary Resources for the Iraqi Relief and Reconstruction Fund. The Iraqi Relief and Reconstruction Fund is a transfer fund where the Army General Fund executes the funding on behalf of the Executive Office of the President. The U.S. Treasury requires that the execution for this type of transfer is presented on the Army General Fund financial statements.

Components Requiring or Generating Resources in Future Period reports $1.3 billion of increases in unfunded expenses that were incurred during FY 2007. The cumulative total of unfunded expenses from all fiscal years is reported as Liabilities Not Covered by Budgetary Resources in Note 11.

Liabilities not covered by budgetary resources on the Army General Fund Balance Sheet totals $70.2 billion and the amount reported here as requiring or generating resources in future periods totals $1.3 billion. The difference of $68.9 billion is primarily due to the differing perspectives. Liabilities not covered by budgetary resources report the cumulative balance for Balance Sheet liabilities not yet funded; whereas, as components requiring or generating resources in future periods reflect only the current period changes for all unfunded liabilities.

Resources used to Finance Activities, Other consist of the Other Gains and Losses, Nonbudgetary. Other resources or adjustments to net obligated resources that do not affect net cost of operations, consists of Other Gains and Losses and Transfers in without reimbursement. Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period, Other consists of Future Funded Expenses and Future Funded Unemployment. Components not Requiring or Generating Resources, Other consists of the cost capitalization offset, bad debt expense, and other expenses not requiring budgetary resources.

## Note 22. Disclosures Related to Incidental Custodial Collections



The Army General Fund collected $278,184.43 during FY 2007 for fines, penalties and forfeitures of bonds under immigration and labor laws. All collections were disbursed to Treasury as miscellaneous receipts. Some of the items included in this category are forfeiture of bonds posted by aliens; penalties for violation of the Eight Hour Law, Fair Labor Standards Act, Public Contracts Act, Labor-Management Reporting and Disclosure Act, Migrant Labor Agreement and other labor laws; and unclaimed back wages under any of these acts.

# Note 23. Earmarked Funds

| BALANCE SHEET | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |
|---|---|---|---|---|---|
| As of September 30, 2007 | | | | | |
| *(Amounts in thousands)* | | | | | |
| **ASSETS** | | | | | |
| Fund balance with Treasury | $ 0 | $ 0 | $ 48,282 | $ 0 | $ 48,282 |
| Investments | 0 | 0 | 2,545 | 0 | 2,545 |
| Accounts and Interest Receivable | 0 | 0 | 26,695 | (26,628) | 67 |
| Other Assets | 0 | 0 | 903 | 0 | 903 |
| Total Assets | $ 0 | $ 0 | $ 78,425 | $ (26,628) | $ 51,797 |
| **LIABILITIES and NET POSITION** | | | | | |
| Military Retirement Benefits and Other Federal Employment Benefits | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Other Liabilities | 0 | 0 | 53,804 | (26,628) | 27,176 |
| Total Liabilities | $ 0 | $ 0 | $ 53,804 | $ (26,628) | $ 27,176 |
| Unexpended Appropriations | 0 | 0 | 0 | 0 | 0 |
| Cumulative Results of Operations | 0 | 0 | 24,621 | 0 | 24,621 |
| Total Liabilities and Net Position | $ 0 | $ 0 | $ 78,425 | $ (26,628) | $ 51,797 |
| **STATEMENT OF NET COST** | | | | | |
| Program Costs | $ 0 | $ 0 | $ 19,656 | $ 0 | $ 19,656 |
| Less Earned Revenue | 0 | 0 | (2,326) | 0 | (2,326) |
| Net Program Costs | $ 0 | $ 0 | $ 17,330 | $ 0 | $ 17,330 |
| Less Earned Revenues Not Attributable to Programs | 0 | 0 | 0 | 0 | 0 |
| Net Cost of Operations | $ 0 | $ 0 | $ 17,330 | $ 0 | $ 17,330 |
| **STATEMENT OF CHANGES IN NET POSITION** | | | | | |
| Net Position Beginning of the Period | $ 0 | $ 0 | $ 42,792 | $ 0 | $ 42,792 |
| Net Cost of Operations | 0 | 0 | 17,330 | 0 | 17,330 |
| Budgetary Financing Sources | 0 | 0 | (995) | 0 | (995) |
| Other Financing Sources | 0 | 0 | 154 | 0 | 154 |
| Change in Net Position | $ 0 | $ 0 | $ (18,171) | $ 0 | $ (18,171) |
| Net Position End of Period | $ 0 | $ 0 | $ 24,621 | $ 0 | $ 24,621 |



## Earmarked Funds

Earmarked Funds represent funds received from outside sources for specific purposes. The Army General Fund receives earmarked funds for the following appropriations:

- Sale of Hunting and Fishing Permits. Fees are received from individuals for the issuance of special hunting and fishing permits. The funds for this account are used for wildlife, fish and game conservation and rehabilitation on military reservations. Title 10, United States Code (USC) 670b gives the authority to collect funds for this purpose and distribute the funds for the intended purposes.

- Restoration of Rocky Mountain Arsenal. Funds are received from private industry for the cleanup of contamination areas of Rocky Mountain Arsenal. Public Law (PL) 99 661, Section 1367 provides the authority for this explicit use.

- Royalties for Use of DoD-Military Insignia and Trademarks. Funds are received from the sale of commemorative memorabilia, trademarks and licensing activities. The funds are used to replenish inventory stock for such items and other related Commemorative Program expenses. The authority to create expenditures originates from PL 102 484, Section 378.

- Forest and Wildlife Conservation, Military Reservations. These funds are produced from the sale of forest products that are in excess of operation and maintenance expenses at fiscal year-end for the payment of entitlements to states. The authority and directive for this fund originates from Title 10, USC 2665.

- National Science Center. Funds received from the collection of fees for the use of the National Science Center and use for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.

- Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments for the use of purchasing supplies and equipment for the library at Walter Reed Army Medical Center. The Army cannot currently identify the statutory citation that provides authority for the use of this fund. The appropriation for this earmark is 21 X 8063.

- Department of the Army General Gift Fund. Funds are received from private parties and estates and used for various purposes. Title 10, USC 2601 establishes the authority governing the use of this fund.

The Total Earmarked Funds column is shown as consolidated and relates only to Earmarked Funds. The elimination column on this note includes only eliminations associated with Earmarked Funds and excludes the offsetting eliminations from All Other Funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the total column equal the amounts reported for Earmarked Funds on the Balance Sheet.

## Note 24. Other Disclosures

| As of September 30 | 2007 | | | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Asset Category | | | |
| | Land and Buildings | Equipment | Other | Total |
| **1. ENTITY AS LESSEE-Operating Leases** | | | | |
| Future Payments Due | | | | |
| Fiscal Year | | | | |
| 2008 | $ 4,950 | $ 0 | $ 0 | $ 4,950 |
| 2009 | 3,794 | 0 | 0 | 3,794 |
| 2010 | 2,118 | 0 | 0 | 2,118 |
| 2011 | 67 | 0 | 0 | 67 |
| 2012 | 67 | 0 | 0 | 67 |
| After 5 Years | 15,417 | 0 | 0 | 15,417 |
| **Total Future Lease Payments Due** | $ 26,413 | $ 0 | $ 0 | $ 26,413 |

## Note 25. Restatements

During the reporting period, accounting principle changes were deemed necessary. As a result, prior year changes have been made retrospectively in accordance with generally accepted accounting principles (GAAP).

### Correction Due to Change in Allocation Transfer Reporting

Effective FY 2007, the Office of Management and Budget (OMB) Circular A-136 "Financial Reporting Requirements" changed the reporting of allocation transfers. Due to this change, the Army General Fund reports in its basic financial statements the programs it administers on behalf of the Executive Office of the President (EOP).

Per OMB Circular A-136 Section I.14.2, the cumulative effect of the change on prior periods should be reported as a change in accounting principle, consistent with Statement of Federal Financial Accounting Standards No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Although this is not considered an error, due to the material impact, beginning balances were changed to accommodate the proper reporting of the EOP balances in the Army General Fund's Statement of Budgetary Resources as outlined below:

| Statement of Budgetary Resources | | |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Beginning Balance Change for FY 2007** | | |
| Unobligated Balance, Brought Forward | $ | 385,240 |
| Obligated Balance, Brought Forward | $ | 3,453,931 |

The Unobligated Balance, Brought Forward and the Obligated Balance, Brought Forward increased due to the inclusion of the Iraqi Relief and Reconstruction Fund.

## Required Supplementary Stewardship Information (RSSI)

The following summarizes Nonfederal Physical Property. Investments in Non-federal Physical Property refers to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by State and Local Governments, including major additions, alterations and replacements; the purchase of major equipment; and the purchase of improvement of other physical assets. A schedule of estimated investments value of state-owned properties that are used by the Federal Government is shown below.

**Non-federal Physical Property**
**Yearly Investment in State and Local Governments**

For Fiscal Years FY 2003 through FY 2007
(In Millions of Dollars)

| (a) | (b) | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| Categories | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
| **Transferred Assets:** | | | | | |
| 1. National Defense Mission Related | $85.0 | $54.7 | $70.7 | $66.5 | $23.0 |
| **Funded Assets:** | | | | | |
| 2. National Defense Mission Related | 0 | 0 | 0 | 0 | 0 |
| Total | $85.0 | $54.7 | $70.7 | $66.5 | $23.0 |

**Notes:**

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

2. Data provided here are significant because these are properties that are owned by the various U.S. Property and Fiscal Offices and are essential in accomplishing the mission of the Army National Guard.

3. Costs of maintenance of these non-federal assets are included in the budgetary resources of Army National Guard.

4. These properties represent non-cash items that were transferred to State and local governments.

The following summarizes Basic Research, Applied Research, and Development Investments and provides examples of each.

**Investments in Research and Development**
**Yearly Investment in Research and Development**

For Fiscal Years FY 2003 through FY 2007
(In Millions of Dollars)

| (a) | (b) | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| Categories | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
| Basic Research | $226.9 | $291.6 | $360.0 | $355.4 | $348.9 |
| Applied Research | 847.2 | 886.8 | 995.1 | 1,006.8 | $1,115.2 |
| Development | | | | | |
| Advanced Technology Development | 988.6 | 1,010.4 | 1,185.8 | 1,369.3 | $1,576.2 |
| Advanced Component Development and Prototypes | 880.1 | 767.7 | 830.3 | 659.7 | $585.3 |
| Systems Development and Demonstration | 2,265.1 | 3,288.3 | 4,309.4 | 4,963.5 | $5,026.1 |
| Research, Development, Test and Evaluation Management Support | 979.4 | 1.069.8 | 1,157.3 | 1,287.5 | $1,336.7 |
| Operational Systems Development | 964.9 | 929.8 | 1,156.7 | 1,218.7 | $1,380.5 |
| Total | $7,152.2 | $8,244.4 | $9,994.6 | $10,860.9 | $11,368.9 |

**Narrative Statement:**

**Basic Research** is the systematic study directed toward greater knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications towards processes or products in mind. It includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those fields of the physical, engineering, environmental and life sciences related to long-term national security needs. It is farsighted high payoff research that provides the basis for technological progress.

*The following are two representative program examples for each of the major categories:*

**Defense Research Sciences (PE 0601102A):** This program fosters fundamental scientific knowledge and contributes to the sustainment of US Army scientific and technological superiority in land warfighting capability, provides new concepts and technologies for the Army's Future Force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. It fosters innovation in Army niche areas (such as lightweight armor, energetic materials, night vision) and where the commercial incentive to invest is lacking due to limited markets (e.g., vaccines for tropical diseases). It also focuses university single investigators on research areas of Army interest, such as high-density compact power and novel sensor phenomenologies. The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to expeditiously transition knowledge and technology into the appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia and industry. This translates to a coherent, well-integrated program that is executed by four primary contributors: 1) the Army Research, Development, and Engineering Command (RDECOM); 2) the US Army Engineer Research and Development Center (ERDC); 3) the Army Medical Research and Materiel Command (MRMC) laboratories; and 4) the Army Research Institute for Behavioral and Social Sciences (ARI). The basic research program is coordinated with the other Services via Defense Science and Technology Reliance (Defense Basic Research Advisory Group), and other inter-service working groups. This program responds to the scientific and technological requirements of the Department of Defense Basic Research Plan by enabling technologies that can significantly improve joint war fighting capabilities. The projects in this program involve basic research efforts directed toward providing fundamental knowledge that will contribute to the solution of military problems related to long-term national security needs.



**University and Industry Research Centers (PE 0601104A):** A significant portion of the work performed within this program directly supports Future Force requirements by providing research that supports enabling technologies for Future

Force capabilities. Broadly, the work in this project falls into three categories: Collaborative Technology Alliances (CTAs), University Centers of Excellence (COE), and paradigm-shifting centers - University-Affiliated Research Centers (UARCs). The Army has formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. CTAs involve partnerships between industry, academia and the Army Research Laboratory to incorporate the practicality of industry, the expansion of the boundaries of knowledge from universities, and Army scientist to shape, mature and transition technology. CTAs have been competitively established in the areas of Advanced Sensors, Advanced Decision Architecture, Communications and Networks, Power and Energy, and Robotics. This program element (PE) includes the Army's COE, which focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs, such as rotorcraft, automotive, microelectronics, materials and information sciences. COEs couple state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in information sciences, materials science, electronics, automotive, and rotary wing technology.

Also included is eCYBERMISSION, the Army's national, web-based, competition to stimulate interest in science, math, and technology among middle and high school students. This program also includes the four Army UARCs, which have been created to exploit opportunities to advance new capabilities through a sustained long-term multidisciplinary effort. The Institute of Advanced Technology funds basic research in electromagnetics and hypervelocity physics. The Institute for Soldier Nanotechnologies focuses on Soldier protection by emphasizing revolutionary materials research for advanced Soldier protection and survivability. The Institute for Collaborative Biotechnologies, focusing on enabling network centric-technologies, will broaden the Army's use of biotechnology for the development of bio-inspired materials, sensors and information processing. The Institute for Creative Technologies is a partnership with academia and the entertainment and gaming industries to leverage innovative research and concepts for training and simulation.

Applied Research is the systematic study to understand the means to meet a recognized and specific need. It is a systematic expansion and application of knowledge to develop useful materials, devices, systems or methods. It may be oriented, ultimately, toward the design, development, and improvement of prototypes and new processes to meet general mission area requirements. Applied research may translate promising basic research into solutions for broadly defined military needs, short of system development.

*The following are two representative program examples for this category:*

**Materials Technology (PE 0602105A):** This program funds research and evaluation of materials technologies for armor and armaments that will significantly enhance the survivability and lethality of Future Force systems and where feasible, can be exploited to enhance the Current Force. This program builds on materials research transitioned from Defense Research Sciences Materials and Mechanics project and applies it to specific Army platforms and the individual Soldier. This program is directed toward developing materials technology that contributes to making heavy forces lighter and more deployable and light forces more lethal and survivable. The program provides the technology base required for solving materials-related problems in individual Soldier support equipment, armor, armaments, aircraft, ground and combat vehicles, and combat support. This program also funds collaborative research efforts in nanomaterials technology between the Army Research Laboratory (ARL) and the Institute for Soldier Nanotechnologies (ISN) at the Massachusetts Institute of Technology and the ISN industry partners. The effort is focused specifically on the improvement in individual Soldier protection.



**Combat Vehicle and Automotive Technology (PE 0602601A):** This program researches, investigates, and applies combat vehicle and automotive component technologies that enhance survivability, mobility, sustainability and maintainability of Army ground combat and tactical vehicles. As combat vehicle systems become smaller and lighter, and because tactical vehicles are more often exposed to combat conditions, one of the greatest technological and operational challenges is providing adequate crew protection while reducing reliance on heavy passive armor. This challenge will be met using a layered approach, including long-range situational awareness, advanced lightweight opaque and transparent armors, Active Protection Systems (APS), and multi-spectral signature reduction. This program focuses on designing, fabricating and evaluating performance of integrated and add-on lightweight armor packages needed to provide lightweight combat vehicles protection against Chemical Energy (CE) and Kinetic Energy (KE) threats with less than one -fourth the weight of conventional heavy armor. This program also designs, fabricates and evaluates structural and add-on armors for tactical vehicles. This program funds the National Automotive Center (NAC). The goal of the NAC is to leverage large commercial investments in automotive technology, research and development by pursuing automotive-oriented technology programs that have potential benefit to military ground vehicles. This program researches and investigates a variety of enabling technologies in the areas of hybrid electric propulsion, mobility, thermal management, intelligent systems, vehicle diagnostics, fuels/lubricants, and water purification. Future Force vehicles and new tactical vehicles are being designed with hybrid electric architectures, advanced high power density engines and auxiliary power units that provide power for propulsion, control systems, communications, life support systems, electromagnetic (EM) armor, Soldier battery charging, and export to other systems.

**Development** takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability and production capability. Development is comprised of five stages defined below:

1. **Advanced Technology Development:** This area of technology includes all efforts to mature technology (hardware or software) sufficient for demonstration in an operational environment—this may be live or virtual. In this program, experimental systems or subsystems are demonstrated to prove the technical feasibility and military utility of the approach selected. Advanced technology development provides the path for the rapid development and demonstration of new components and systems. The most complex efforts in this program are designated as Advanced Technology Demonstrations (ATDs). The Army's ATDs are developed to facilitate the smooth transition of advanced technology into systems as part of a formal acquisition program.

2. **Advanced Component Development and Prototypes (ACD&P)** evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of ACD&P development are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.

3. **System Development and Demonstration** concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

4. **RDT&E Management Support** includes research, development, test and evaluation efforts and funds to sustain and/or modernize the installations or operations required for general research, development, test and evaluation.

5. **Operational Systems Development** includes developmental efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal years.



*The following are five representative program examples of development:*

**Electronic Warfare Advanced Technology (PE 0603008A):** The goal of this program is to provide enabling technologies for a secure, mobile, wireless network that will operate reliably in diverse and complex terrain, in all environments for the Army's Future Force and, where feasible, exploit opportunities to enhance Current Force capabilities. Technologies will be matured and demonstrated to address this challenge with distributed, mobile, secure, self-organizing communications networks. A key objective is to demonstrate seamlessly integrated communications technologies across all network tiers, ranging from unattended networks and sensors through maneuver elements and airborne/space assets. To accomplish the goal, this program will investigate and leverage external communication technologies and combine technology options in a series of Command, Control, Communications, and Computers Intelligence, Surveillance, and Reconnaissance (C4ISR) On-The-Move (OTM) experiments to measure the battlefield effectiveness for the Future Force. This program also provides:

- protection technologies for tactical wireless networks against modern network attacks;
- smart communication technologies to network and control unmanned systems anywhere on the battlefield, enabling timely sensor-decider-engagement linkage to defeat critical targets; and
- advanced antenna technologies for greater communications mobility, range and throughput; and automated network management aids.

**Aviation - Advanced Development (PE 0603801A):** This program provides advanced development aviation support of tactical programs associated with air mobility, advanced maintenance concepts and equipment, and Aircrew Integrated Systems. This program demonstrates the feasibility and maturity of new technology and gains understanding in order to evaluate utility of this technology to expedite delivery of new capabilities for Army Aviation rotary wing assets. Additionally, the Aviation Ground Support Equipment assets enhance the functionality of current and future aircraft by improving the effectiveness of maintenance and servicing operations through validating new maintenance concepts to improve man and machine interfaces, improve aircraft maintenance processes, reduce Operation and Support costs and insert diagnostics technologies to replace obsolete and unsupportable equipment.

**Patriot/MEADS Combined Aggregate Program (CAP) (PE 0604869A):** The Medium Extended Air Defense System (MEADS) program is a tri-national co-development program among the United States, Germany, and Italy to replace the U.S. Patriot air defense systems, Patriot and Hawk systems in Germany, and NIKE Hercules systems in Italy. The NATO MEADS Management Agency (NAMEADSMA) is the NATO contracting authority providing management of the MEADS program on behalf of the participating nations and is responsible for managing the system acquisition. Within the Patriot/MEADS CAP there are two synergistic efforts: an international MEADS development effort managed by NAMEADSMA; and a U.S. effort to inject U.S.-specific capability requirements into the MEADS Major End Items.

MEADS will provide joint- and coalition forces critical asset and defended area protection against multiple and simultaneous attacks by short to medium range ballistic missiles, cruise missiles, unmanned aerial vehicles and tactical air-to-surface missiles. The Missile Segment Enhancement missile has been accepted as the baseline missile for MEADS. It is being developed by the U.S. for Patriot to meet U.S. operational requirements. Missile Segment Enhancement will provide a more agile and lethal interceptor that increases the engagement envelope/defended area of Patriot and the MEADS systems. The PAC-3 MSE improves upon the current PAC-3 missile capability with a higher performance solid rocket motor, modified lethality enhancer, more responsive control surfaces, upgraded guidance software, and insensitive munitions improvements.

**Army Test Ranges and Facilities (0605601A):** This program funds the indirect test costs associated with rapidly testing field systems and equipment needed in support of the Global War on Terrorism, such as individual soldier protection equipment and Counter Measures for Improvised Explosive Devices and up-armoring the Army's wheeled vehicle fleet. This project sustains the developmental Test and Evaluation capability required to support Army as well as joint Service or other Service systems, hardware, and technologies. Unclassified systems scheduled for developmental testing encompass the entire spectrum of weapons systems, including:

- up-armoring vehicle ballistic protection on the Buffalo, Cougar, Family of Medium Tactical Vehicles Long Term Armor Strategy, and Joint Light Tactical Vehicle;
- Stryker upgrades;
- armor gun shields for tactical vehicles;
- reactive and active armor on the Stryker;
- Personnel Screening Systems;

- the Mine Resistant Ambush Protected Vehicles;
- Intelligence Surveillance and Reconnaissance; Electronic Countermeasure Devices;
- body armor;
- High Mobility Multipurpose Wheeled Vehicle;
- Aviation Transformation;
- aviation protection systems;
- missile defense; and
- Unmanned Systems.

Capabilities are also required to support System-of-Systems and network centric systems to include Future Combat System (FCS) testing.

This project provides the institutional funding required to operate the developmental test activities required by Department of Defense (DoD) Program Executive Officers, Program and Product Managers, and Research, Development, and Engineering Centers. This project provides resources to operate four DoD Major Range and Test Facility Bases: White Sands Missile Range, NM; Aberdeen Test Center, MD; Electronic Proving Ground, AZ; and Yuma Proving Ground, AZ (to include management of Army natural environmental testing at Cold Regions Test Center, Fort Greely and Fort Wainwright, AK, and Tropic Regions Test Center at various locations). This project also funds the Army's developmental test capability at Aviation Technical Test Center, AL; and Redstone Technical Test Center, AL. Test planning and safety verification at Headquarters, U.S. Army Developmental Test Command (DTC), MD, is also supported by this program.

**Information Systems Security Program (0303140A):** The Communications Security Equipment Program develops Information Systems Security (ISS) equipment and techniques required to combat threat Signal Intelligence capabilities and to insure the integrity of data networks. The Army's RDTE ISS program objective is to implement National Security Agency (NSA) developed security technology in Army information systems. Communications Security Equipment(C OMSEC)technology ensures total signal and data security for all Army information systems to include any operational enhancement and specialized Army configurations.

# Required Supplementary Information (RSI)

**Department of the Army**
**General Property, Plant and Equipment**
**Real Property Deferred Maintenance Amounts**

As of September 30, 2007

**Real Property Deferred Maintenance**

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

| Property Type | Current Fiscal Year (CFY) | | |
|---|---|---|---|
| | 1. Plant Replacement Value | 2. Required Work (deferred maintenance) | 3. Percentage |
| Category 1 | $150,842,865 | $27,566,025 | 18% |
| Category 2 | $25,059,257 | $8,768,509 | 35% |
| Category 3 | $219,968 | $0 | 0% |

**Narrative Statement:**

The deferred maintenance estimates are based on the facility Q-ratings found in the Army's real property inventory. For FY 2007, the possible Q-rating values are Q1, Q2, Q3 and Q4. Deferred maintenance is calculated as follows: for Q1 facilities, 5% of plant replacement value (PRV); for Q2 facilities, 15% of PRV; for Q3 facilities, 30% of PRV; for Q4 facilities, 60% of PRV. Q-ratings are determined by the Installation Status Report (ISR) for the majority of facilities, and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: Q4 if the facility has a planned disposition code value; Q1 if the facility is no more than 5 years old; Q4 if the facility is temporary construction and more than 5 years old; Q3 if the facility is permanent construction and more than 5 years old. Acceptable operating condition represents Q1 facilities with no deferred maintenance.

Facility Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission including multi-use Heritage Assets
- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets

**Military Equipment**
**Deferred Maintenance Amounts**

As of September 30, 2007
(Amount in Thousands)

| (a) | (b) |
|---|---|
| Major Type | |
| 1. Aircraft | $358,687 |
| 2. Ships | 0 |
| 3. Missiles | $129,067 |
| 4. Combat Vehicles | $103,921 |
| 5. Other Weapons Systems | $307,027 |
| Total | $898,702 |

The Op-30 from the FY2008 President Budget was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System (DMOPS). DMOPS is the automated system for capturing depot-level deferred maintenance data.

## National Defense Property, Plant, and Equipment

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation.

**Heritage Assets**

For Fiscal Year Ended September 30, 2007

| (a) | (b) | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| | Measurement / Quantity | As of 10/1/06 | Additions | Deletions | As of 9/30/07 |
| Museums (Note 2) | Each | 61 | 0 | 2 | 59 |
| Monuments and Memorials (Note 3) | Each | 1,225 | 36 | 10 | 1,251 |
| Cemeteries (Note 4) | Sites | 471 | 25 | 6 | 490 |
| Archeological Sites (Note 6) | Sites | 68,467 | 3,353 | 1,823 | 69,997 |
| Buildings & Structures (Note 1) | Each | 9,234 | 1,304 | 1,030 | 9,508 |
| Major Collections (Note 5) | Each | 106 | 0 | 0 | 106 |

**Narrative Statement:**



In most cases, the additions/deletions are the result of sites/installations: (a) identifying cemeteries and historical facilities; (b) disposing of BRAC Closure property or excess installations; and (c) privatization/RCI program. BRAC Mission Closure installations/sites are included in this report.

**Notes:**

1. Historical Buildings and Structures: Buildings and structures designated as historical exclude museums, monuments and memorials. The Army reports all buildings and structures that are either considered eligible for listing or are listed on the National Register of Historic Places, as well as buildings or structures listed as National Historic Landmarks. Many of these properties are considered eligible or they are listed as part of a Historic District rather than as individual listings. The majority of the Army's inventory of buildings and structures that are reported as heritage assets are also multi-use heritage assets because they are occupied and used in support of the mission.

2. The number of Buildings and Structures increased as a result of the following initiatives:
   - Installations conducting real property surveys and making adjustments according to their findings
   - Active installations now reporting previously omitted National Guard Bureau buildings and structures designated as heritage assets
   - Both National Guard and Reserve are now reporting new buildings and structures designated as heritage assets

3. Museums: The Army Museum System consists of 59 museums and museum activities in the active Army and Army Reserve. There are a relatively small number of federally-owned artifacts in National Guard Museum activities, which are primarily state entities. In addition, there is historical property displayed in numerous regimental rooms, trophy rooms, officer's clubs, visitor's centers, chapels, and headquarters building elements that are not individually recognized by the Army as museums or museum activities. Solely for reporting purposes, we have consolidated all of these separate and smaller collections during this reporting period.

4. Memorial/Monuments: Includes category code 76020 (monuments).

5. Cemeteries: Includes category code 76030 (cemetery), 76031 (National Cemetery), 76032 (Veterans Cemetery), and excludes 76033 (Pet Cemeteries).

6. Major Collections: The US Army Tank Automotive & Armaments Life Cycle Management Command (TACOM LCMC) reports two (2) major collections under the Army Donations Program consisting of Ceremonial Rifles and Monuments/Static Displays. The Ceremonial Rifle collection consists of approximately 300,000 weapons in the hands of over 23,000 veterans' organizations, law enforcement agencies and National Cemeteries. This collection is in good condition with 95% accountability of serial number tracking. The Monuments/Static Display collection consists of approximately 4760 major end items which are in good condition with 100% accountability.

   Major collections also includes archeological collections identified at individual Army installations. The Army is including Archeological Collections in the number of Major Collections for the first time. These collections are managed in accordance with Federal Regulations and are kept in perpetuity. Some collections are accessible to the public but not all items within an Archeological Collection are accessible to the public due to Federal regulations such as the Native American Graves Protection and Repatriation Act (1990). Each installation maintaining an archeological collection is considered to have only one collection per installation regardless of whether the collection is divided among different facilities or locations. The collections are the responsibility of the Army but may be in the care of a contractor, a public institution or other entity.

   The condition of the Army's Archeological Collections is good. Only 33% of the Army's existing archeological collections need upgrading of either curatorial facilities, accessioning, packaging and/or conservation to meet Federal requirements under 36 CFR 79.

7. Archeological Sites: The Army reports Archeological Sites in the table as one category; however we also report within this note a subset of the table amount. All recorded archeological sites on Army-owned Federal land without reference to eligibility, and all archeological sites that have been determined eligible for the National Register of Historic Places, are reported in the Heritage Assets table. It is the total number of archeological sites for which the Army is responsible for managing and evaluation of their significance. The following numbers are

a subset of the larger number and reflects the number of archeological sites which have been through a formal evaluation process and are either eligible or listed on the National Register of Historic Places.

| (a) | (b) | (c) | (d) | (e) | (f) |
|---|---|---|---|---|---|
| | Sites | As of 10/01/06 | Additions | Deletions | As of 9/30/07 |
| National Register eligible or listed archeological sites | Included within total number of recorded sites | 8,773 | 484 | 1609 | 7648 |

The Army does not generally acquire or remove new archeological sites annually, but instead identifies new sites on existing Army land or evaluates existing sites during the course of the financial year. Any additions of archeological sites reflect the Army's policy to identify and evaluate historic properties in accordance with Sections 106 and 110 of the National Historic Preservation Act. As more land is surveyed, more archeological sites are identified. Some deletions reflect changes to the status of a recorded archeological site that may have been determined ineligible for listing or may be evidence of an accounting correction due to installations' continued improvement of data quality. In some cases, an archeological site may appear as a deletion if it was mitigated or destroyed, or if multiple sites previously counted as individual sites were found to have only one official trinomial number. However, the majority of deletions in both categories is not due to any physical changes to these sites, but instead reflects accounting procedures changes because the Army National Guard reported only those sites located on Federally owned land, and did not include those on State or privately owned land .

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors, including the environmental setting, the type of the site, and impacts from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register of Historic Places, the installation's Installation Cultural Resource Management Plan (ICRMP) contains provisions for how the installation would proceed to mitigate those impacts. ICRMPs are the plan that installations use to manage their cultural resources including archeological sites in compliance with federal requirements. These plans provide for site protection, site conditions monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are fair based on the Army's cultural resource management procedures.

The following summarizes Stewardship Land. Additions/deletions are the result of: (a) acquiring additional land through donation or withdrawal from public domain; (b) identification of missing land records; and (c) disposal of BRAC Closure sites or transfer of land to another DoD agency. BRAC Mission Closure installations and sites are included in this report.

**Army General Fund - Consolidated Report**
**Stewardship Land**

For Fiscal Year Ended September 30, 2007
(Acres in Thousands)



| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| Land Use (Acres) | As of 10/1/2006 | Additions | Deletions | As of 9/30/2007 |
| 1. Mission Related (Note 1) | 6,909.25 | 6.05 | 1.54 | 6,913.76 |
| 2. Parks/Historical Sites (Note 2) | .95 | .03 | 0 | .98 |

**Notes:**

1. Mission Land includes various category codes. These category codes represent land that was not purchased, but was either donated or withdrawn from public domain.

2. Parks/Historic Sites: Same as Cemetery Acreage on Heritage Report (includes category codes 76030, 76031,

and 76032; excludes Pet Cemeteries); unable to determine if cemeteries are purchased, donated or transferred property. This value could be double reported within Mission Related; therefore; this report should not be totaled.

NOTE: Additions/deletions may the result of:

(1) Acquiring additional land through donation or withdrawal from public domain.

(2) Identification of missing land records.

(3) Disposal of BRAC Closure sites or transfer of land to another DoD agency.

**Stewardship Property, Plant and Equipment Condition:**

The Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards 29 - Heritage Assets and Stewardship Land, requires the Army to report the condition of heritage assets and stewardship land as required supplementary information. The FASAB standard states that the condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Given the aforementioned criteria, most Army heritage assets and stewardship land are in an acceptable physical state and have established data compilation standards. Specific examples of Stewardship Property, Plant and Equipment condition are outlined below:

- Major Collections: The U.S. Army Tank Automotive and Armaments Life Cycle Management Command (TACOM LCMC) reports two major collections under the Army Donations Program consisting of Ceremonial Rifles and Monuments/Static Displays. The Ceremonial Rifles collection is in good condition with 101,985 rifles considered lost or stolen and 95 percent serial number accountability of the remaining 269,178 weapons. The Monuments/Static display collection consists of 5,375 major end items located in 3,169 organizations, which are in good condition with 100% accountability.

- Archeological Collections: The condition of the Army's Archeological Collections is good. Thirty three percent of the Army's existing archeological collections need upgrading of either curatorial facilities, accessioning, packaging and/or conservation to meet Federal requirements under title 36, chapter I of the code of federal regulation part 79 - Curation of Federally-Owned and Administered Archeological Collections.

*Department of Defense Department of the Army*

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Other | Research, Development, Test & Evaluation | Operation and Maintenance | Procurement |
|---|---|---|---|---|
| **BUDGETARY FINANCING ACCOUNTS** | | | | |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 3,927,023 | $ 2,693,619 | $ 1,978,039 | $ 5,668,804 |
| Recoveries of prior year unpaid obligations | 870,715 | 1,627,344 | 9,277,068 | 2,233,964 |
| Budget authority | | | | |
| Appropriation | 19,026,617 | 11,154,964 | 81,224,241 | 41,402,061 |
| Borrowing authority | 0 | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 631 | 4,646,164 | 11,291,307 | 1,492,245 |
| Change in receivables from Federal sources | 7 | (85,664) | 132,166 | (3,040) |
| Change in unfilled customer orders | | | | |
| Advance received | 0 | (5,339) | (22,458) | 7,805 |
| Without advance from Federal sources | 849 | (129,946) | 1,370,321 | 75,850 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 19,028,104 | $ 15,580,179 | $ 93,995,577 | $ 42,974,921 |
| Nonexpenditure transfers, net, anticipated and actual | (511,751) | 366,739 | 542,068 | 1,738,779 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | (19,399) | (113,422) | (471,338) | (280,119) |
| **Total Budgetary Resources** | $ 23,294,692 | $ 20,154,459 | $ 105,321,414 | $ 52,336,349 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 12,798,097 | $ 12,531,741 | $ 89,141,162 | $ 38,810,102 |
| Reimbursable | 26,868 | 4,902,596 | 13,767,738 | 1,426,349 |
| Subtotal | $ 12,824,965 | $ 17,434,337 | $ 102,908,900 | $ 40,236,451 |
| Unobligated balance: | | | | |
| Apportioned | 10,005,092 | 2,592,176 | 265,545 | 11,926,047 |
| Exempt from apportionment | 0 | 0 | 0 | 0 |
| Subtotal | $ 10,005,092 | $ 2,592,176 | $ 265,545 | $ 11,926,047 |
| Unobligated balance not available | 464,634 | 127,946 | 2,146,969 | 173,851 |
| **Total Status of Budgetary Resources** | $ 23,294,691 | $ 20,154,459 | $ 105,321,414 | $ 52,336,349 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 6,980,611 | $ 9,762,287 | $ 36,286,522 | $ 29,867,458 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (3,632) | (3,964,106) | (6,123,691) | (2,239,328) |
| Total unpaid obligated balance | $ 6,976,979 | $ 5,798,181 | $ 30,162,831 | $ 27,628,130 |
| Obligations incurred net (+/-) | $ 12,824,965 | $ 17,434,337 | $ 102,908,900 | $ 40,236,451 |
| Less: Gross outlays | (11,561,993) | (16,004,779) | (84,414,770) | (28,061,292) |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | (870,715) | (1,627,344) | (9,277,068) | (2,233,964) |
| Change in uncollected customer payments from Federal sources (+/-) | (855) | 215,610 | (1,502,487) | (72,810) |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 7,372,869 | 9,564,502 | 45,503,585 | 39,808,652 |
| Less: Uncollected customer payments from Federal sources (-) | (4,487) | (3,748,496) | (7,626,178) | (2,312,139) |
| Total, unpaid obligated balance, net, end of period | $ 7,368,382 | $ 5,816,006 | $ 37,877,407 | $ 37,496,513 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | 11,561,993 | 16,004,779 | 84,414,770 | 28,061,292 |
| Less: Offsetting collections | (631) | (4,640,825) | (11,268,849) | (1,500,050) |
| Less: Distributed Offsetting receipts | 935,476 | 0 | 0 | 0 |
| **Net Outlays** | $ 12,496,838 | $ 11,363,954 | $ 73,145,921 | $ 26,561,242 |

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

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Military Personnel | Military Construction / Family Housing | 2007 Combined | 2006 Combined |
|---|---|---|---|---|
| **BUDGETARY FINANCING ACCOUNTS** | | | | |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 279,569 | $ 2,862,180 | $ 17,409,234 | $ 15,477,292 |
| Recoveries of prior year unpaid obligations | 3,065,973 | 752,022 | 17,827,086 | 16,851,046 |
| Budget authority | | | | |
| Appropriation | 57,553,995 | 4,491,211 | 214,853,089 | 173,027,517 |
| Borrowing authority | 0 | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 278,513 | 3,907,019 | 21,615,878 | 21,805,492 |
| Change in receivables from Federal sources | 46,521 | (12,411) | 77,579 | (20,488) |
| Change in unfilled customer orders | | | | |
| Advance received | 0 | 219,774 | 199,782 | 420,284 |
| Without advance from Federal sources | (3,446) | 1,116,937 | 2,430,565 | 805,587 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 57,875,583 | $ 9,722,530 | $ 239,176,893 | $ 196,038,392 |
| Nonexpenditure transfers, net, anticipated and actual | (383,750) | (113,238) | 1,638,847 | 3,169,768 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | (109,750) | (52,582) | (1,046,610) | (2,163,696) |
| **Total Budgetary Resources** | $ 60,727,625 | $ 13,170,912 | $ 275,005,450 | $ 229,372,802 |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 59,996,847 | $ 3,747,763 | $ 217,025,713 | $ 186,913,360 |
| Reimbursable | 376,242 | 5,221,756 | 25,721,549 | 25,435,449 |
| Subtotal | $ 60,373,089 | $ 8,969,519 | $ 242,747,262 | $ 212,348,809 |
| Unobligated balance: | | | | |
| Apportioned | 3,678 | 4,178,223 | 28,970,760 | 14,880,099 |
| Exempt from apportionment | 0 | 0 | 0 | 4,035 |
| Subtotal | $ 3,678 | $ 4,178,223 | $ 28,970,760 | $ 14,884,134 |
| Unobligated balance not available | 350,857 | 23,171 | 3,287,428 | 2,139,859 |
| **Total Status of Budgetary Resources** | $ 60,727,624 | $ 13,170,913 | $ 275,005,450 | $ 229,372,802 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 1,888,691 | $ 8,823,467 | $ 93,609,036 | $ 80,720,880 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | 27,118 | (4,832,918) | (17,136,557) | (16,351,456) |
| Total unpaid obligated balance | $ 1,915,809 | $ 3,990,549 | $ 76,472,479 | $ 64,369,424 |
| Obligations incurred net (+/-) | $ 60,373,090 | $ 8,969,518 | $ 242,747,262 | $ 212,348,809 |
| Less: Gross outlays | (56,185,248) | (7,208,378) | (203,436,459) | (186,063,536) |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | (3,065,973) | (752,022) | (17,827,086) | (16,851,046) |
| Change in uncollected customer payments from Federal sources (+/-) | (43,074) | (1,104,526) | (2,508,143) | (785,100) |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 3,010,559 | 9,832,585 | 115,092,752 | 90,155,105 |
| Less: Uncollected customer payments from Federal sources (-) | (15,956) | (5,937,444) | (19,644,699) | (17,136,557) |
| Total, unpaid obligated balance, net, end of period | $ 2,994,603 | $ 3,895,141 | $ 95,448,053 | $ 73,018,548 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | 56,185,248 | 7,208,378 | 203,436,459 | 186,063,536 |
| Less: Offsetting collections | (278,513) | (4,126,793) | (21,815,661) | (22,225,774) |
| Less: Distributed Offsetting receipts | 0 | 0 | 935,476 | (783,002) |
| **Net Outlays** | $ 55,906,735 | $ 3,081,585 | $ 182,556,274 | $ 163,054,760 |

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

*Department of Defense Department of the Army*

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

| | Other | Research, Development, Test & Evaluation | Operation and Maintenance | Procurement |
|---|---|---|---|---|
| **NONBUDGETARY FINANCING ACCOUNTS** | | | | |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 1,292 | $ 0 | $ 0 | $ 0 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 | 0 |
| Budget authority | | | | |
| Appropriation | 0 | 0 | 0 | 0 |
| Borrowing authority | 15,500 | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 284 | 0 | 0 | 0 |
| Change in receivables from Federal sources | 0 | 0 | 0 | 0 |
| Change in unfilled customer orders | | | | |
| Advance received | 0 | 0 | 0 | 0 |
| Without advance from Federal sources | 0 | 0 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 15,784 | $ 0 | $ 0 | $ 0 |
| Nonexpenditure transfers, net, anticipated and actual | 0 | 0 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | 0 | 0 | 0 | 0 |
| **Total Budgetary Resources** | $ 17,076 | $ 0 | $ 0 | $ 0 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 16,487 | $ 0 | $ 0 | $ 0 |
| Reimbursable | 0 | 0 | 0 | 0 |
| Subtotal | $ 16,487 | $ 0 | $ 0 | $ 0 |
| Unobligated balance: | | | | |
| Apportioned | 187 | 0 | 0 | 0 |
| Exempt from apportionment | 0 | 0 | 0 | 0 |
| Subtotal | $ 187 | $ 0 | $ 0 | $ 0 |
| Unobligated balance not available | 403 | 0 | 0 | 0 |
| **Total Status of Budgetary Resources** | $ 17,077 | $ 0 | $ 0 | $ 0 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | 0 | 0 | 0 | 0 |
| Total unpaid obligated balance | $ 0 | $ 0 | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 16,487 | $ 0 | $ 0 | $ 0 |
| Less: Gross outlays | (16,487) | 0 | 0 | 0 |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | 0 | 0 | 0 | 0 |
| Change in uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 0 | 0 | 0 | 0 |
| Less: Uncollected customer payments from Federal sources (-) | 0 | 0 | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 0 | $ 0 | $ 0 | $ 0 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | 16,487 | 0 | 0 | 0 |
| Less: Offsetting collections | (284) | 0 | 0 | 0 |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 | 0 |
| **Net Outlays** | $ 16,203 | $ 0 | $ 0 | $ 0 |

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

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

| | Military Personnel | Military Construction / Family Housing | 2007 Combined | 2006 Combined |
|---|---|---|---|---|
| **NONBUDGETARY FINANCING ACCOUNTS** | | | | |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 0 | $ 0 | $ 1,292 | $ 1,525 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 | 0 |
| Budget authority | | | | |
| Appropriation | 0 | 0 | 0 | 0 |
| Borrowing authority | 0 | 0 | 15,500 | 11,404 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 0 | 0 | 285 | 326 |
| Change in receivables from Federal sources | 0 | 0 | 0 | 0 |
| Change in unfilled customer orders | | | | |
| Advance received | 0 | 0 | 0 | 0 |
| Without advance from Federal sources | 0 | 0 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 15,785 | $ 11,730 |
| Nonexpenditure transfers, net, anticipated and actual | 0 | 0 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | 0 | 0 | 0 | 0 |
| **Total Budgetary Resources** | $ 0 | $ 0 | $ 17,077 | $ 13,255 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 0 | $ 0 | $ 16,487 | $ 11,962 |
| Reimbursable | 0 | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 16,487 | $ 11,962 |
| Unobligated balance: | | | | |
| Apportioned | 0 | 0 | 187 | 535 |
| Exempt from apportionment | 0 | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 187 | $ 535 |
| Unobligated balance not available | 0 | 0 | 403 | 758 |
| **Total Status of Budgetary Resources** | $ 0 | $ 0 | $ 17,077 | $ 13,255 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | 0 | 0 | 0 | 0 |
| Total unpaid obligated balance | $ 0 | $ 0 | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 0 | $ 0 | $ 16,487 | $ 11,962 |
| Less: Gross outlays | 0 | 0 | (16,487) | (11,962) |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | 0 | 0 | 0 | 0 |
| Change in uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 0 | 0 | 0 | 0 |
| Less: Uncollected customer payments from Federal sources (-) | 0 | 0 | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 0 | $ 0 | $ 0 | $ 0 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | 0 | 0 | 16,487 | 11,962 |
| Less: Offsetting collections | 0 | 0 | (284) | (325) |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 | 0 |
| **Net Outlays** | $ 0 | $ 0 | $ 16,203 | $ 11,637 |

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

## Schedule, Part A DoD Intra-governmental Asset Balances

*AT21 - Army General Fund ($ Amounts in Thousands)*

| | Treasury Index | Fund Balance with Treasury | Accounts Receivable | Loans Receivable | Investments | Other |
|---|---|---|---|---|---|---|
| Executive Office of the President | 11 | | $3,176 | | | |
| Department of Agriculture | 12 | | $206 | | | $18,832 |
| Department of Commerce | 13 | | $1,310 | | | $4,195 |
| Department of the Interior | 14 | | $69 | | | $153,507 |
| Department of Justice | 15 | | $3,432 | | | $516 |
| Department of Labor | 16 | | $1 | | | |
| Navy General Fund | 17 | | $61,726 | | | |
| United States Postal Service | 18 | | $953 | | | |
| Department of State | 19 | | $22,903 | | | |
| Department of the Treasury | 20 | $127,981,733 | $2,152 | | $3,447 | |
| Office of Personnel Management | 24 | | $27 | | | $46,139 |
| Library of Congress | 3 | | $10 | | | |
| Nuclear Regulatory Commission | 31 | | $2 | | | |
| Department of Veterans Affairs | 36 | | $631 | | | |
| General Service Administration | 47 | | $0 | | | $14,038 |
| Independent Agencies | 48 | | $140 | | | |
| National Science Foundation | 49 | | $3 | | | $5,598 |
| Central Intelligence Agency | 56 | | $141 | | | |
| Air Force General Fund | 57 | | $36,350 | | | $111,494 |
| Tennessee Valley Authority | 64 | | | | | $154 |
| Environmental Protection Agency | 68 | | $226 | | | $1,492 |
| Department of Transportation | 69 | | $1,171 | | | $20,409 |
| Homeland Security | 70 | | $12,131 | | | $49,615 |
| Small Business Administration | 73 | | | | | $333 |
| American Battle Monuments | 74 | | $3 | | | |
| Department of Health and Human Services | 75 | | $994 | | | $16 |
| National Aeronautics and Space Administration | 80 | | $2,362 | | | $22,357 |
| Armed Forces Retirement Home | 84 | | $0 | | | |
| Department of Housing and Urban Development | 86 | | $0 | | | |
| National Archives and Records Administration | 88 | | $0 | | | |
| Department of Energy | 89 | | $0 | | | $9,157 |
| Selective Service System | 90 | | $509 | | | |
| Department of Education | 91 | | $0 | | | $75 |
| Independent Agencies | 95 | | $0 | | | |
| US Army Corps of Engineers | 96 | | $4,971 | | | |
| Other Defense Organizations General Funds | 97 | | $195,711 | | | $35,545 |
| Other Defense Organizations Working Capital Funds | 97-4930 | | $22,045 | | | $21,160 |
| Army Working Capital Fund | 97-4930.001 | | $40,520 | | | |
| Navy Working Capital Fund | 97-4930.002 | | $5,862 | | | $1 |
| Air Force Working Capital Fund | 97-4930.003 | | $670 | | | $202 |
| Architect of the Capitol | | | $12 | | | |
| **Totals** | | **$127,981,733** | **$420,419** | | **$3,447** | **$514,835** |

## Schedule, Part B DoD Intra-governmental entity liabilities

*AT21 - Army General Fund ($ Amounts in Thousands)*

| | Treasury Index | Accounts Payable | Debts/Borrowings From Other Agencies | Other |
|---|---|---|---|---|
| Executive Office of the President | 11 | | | $20,217 |
| Department of Agriculture | 12 | $7,914 | $26,706 | $106 |
| Department of Commerce | 13 | $648 | | |
| Department of the Interior | 14 | $4,062 | | $14 |
| Department of Justice | 15 | $4,543 | | $190 |
| Department of Labor | 16 | | | $385,159 |
| Navy General Fund | 17 | $30,716 | | $1,265 |
| United States Postal Service | 18 | $21,716 | | |
| Department of State | 19 | $21,716 | | $3,928 |
| Department of the Treasury | 20 | $139,606 | | $2,285 |
| Office of Personnel Management | 24 | $5,749 | | $64,182 |
| Federal Communications Commission | 27 | $661 | | |
| Library of Congress | 3 | | | $9 |
| Nuclear Regulatory Commission | 31 | $306 | | |
| Department of Veterans Affairs | 36 | $5,322 | | $1,339 |
| General Service Administration | 47 | $313,792 | | $17 |
| National Science Foundation | 49 | $1,523 | | |
| Central Intelligence Agency | 56 | | | $132 |
| Air Force General Fund | 57 | $14,697 | | $183 |
| Tennessee Valley Authority | 64 | $4,930 | | |
| Environmental Protection Agency | 68 | $7,608 | | |
| Department of Transportation | 69 | $24,884 | | $121 |
| Homeland Security | 70 | $11,453 | | $49,505 |
| Small Business Administration | 73 | $216 | | |
| Department of Health and Human Services | 75 | $694 | | $51,514 |
| National Aeronautics and Space Administration | 80 | $3,761 | | $5,839 |
| Department of Energy | 89 | $27,176 | | |
| Independent Agencies | 95 | | | $213 |
| US Army Corps of Engineers | 96 | $3,615 | | |
| Other Defense Organizations General Funds | 97 | $96,780 | | $1,106 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $671,006 | | |
| Army Working Capital Fund | 97-4930.001 | $289,181 | | |
| Navy Working Capital Fund | 97-4930.002 | $15,411 | | $0 |
| Air Force Working Capital Fund | 97-4930.003 | $217 | | |
| The General Fund of the Treasury | 99 | | | $2,498,130 |
| **Totals** | | **$1,729,903** | **$26,706** | **$3,085,454** |

## Schedule, Part C DoD Intra-governmental revenue and related costs

*AT21 - Army General Fund ($ Amounts in Thousands)*

| | Treasury Index | Earned Revenue |
|---|---|---|
| The Judiciary | 10 | $5 |
| Executive Office of the President | 11 | $27,422 |
| Department of Agriculture | 12 | $949 |
| Department of Commerce | 13 | $7,115 |
| Department of the Interior | 14 | $2,080 |
| Department of Justice | 15 | $38,559 |
| Department of Labor | 16 | $1 |
| Navy General Fund | 17 | $1,231,422 |
| United States Postal Service | 18 | $1,360 |
| Department of State | 19 | $143,349 |
| Department of the Treasury | 20 | $5,593 |
| Office of Personnel Management | 24 | $56 |
| Library of Congress | 3 | $9,634 |
| Nuclear Regulatory Commission | 31 | $167 |
| Department of Veterans Affairs | 36 | $2,996 |
| General Service Administration | 47 | $3,303 |
| Independent Agencies | 48 | $1,196 |
| National Science Foundation | 49 | $192 |
| Central Intelligence Agency | 56 | $6,271 |
| Air Force General Fund | 57 | $1,250,668 |
| National Labor Relations Board | 63 | $2 |
| Environmental Protection Agency | 68 | $1,651 |
| Department of Transportation | 69 | $4,183 |
| Homeland Security | 70 | $165,241 |
| Overseas Private Investment Corporation | 71 | $11 |
| Agency for International Development | 72 | $101 |
| American Battle Monuments | 74 | $43 |
| Department of Health and Human Services | 75 | $69,970 |
| Congressional Budget Office | 8 | $55 |
| National Aeronautics and Space Administration | 80 | $50,293 |
| Department of Housing and Urban Development | 86 | $1 |
| National Archives and Records Administration | 88 | $1,568 |
| Department of Energy | 89 | $11,421 |
| Selective Service System | 90 | $2,043 |
| Department of Education | 91 | $2,512 |
| Independent Agencies | 95 | $13,855 |
| US Army Corps of Engineers | 96 | $81,256 |
| Other Defense Organizations General Funds | 97 | $3,959,457 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $164,628 |
| Army Working Capital Fund | 97-4930.001 | $642,705 |
| Navy Working Capital Fund | 97-4930.002 | $74,314 |
| Air Force Working Capital Fund | 97-4930.003 | $21,656 |
| The General Fund of the Treasury | 99 | $7 |
| DoD Medicare-Eligible Retiree Health Care Fund | | $125,727 |
| **Totals** | | **$8,125,038** |

## Schedule, Part E DoD Intra-governmental non-exchange revenues

*AT21 - Army General Fund ($ Amounts in Thousands)*

| | Treasury Index | Transfers In | Transfers Out |
|---|---|---|---|
| Unidentifiable Federal Agency Entity (Other than DoD entities) | 0 | ($6,903) | |
| Air Force General Fund | 57 | $29,764 | |
| Other Defense Organizations General Funds | 97 | $1,299,812 | $11,373 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $25,280 | |
| Army Working Capital Fund | 97-4930.001 | $384,532 | |
| **Totals** | | **$1,732,485** | **$11,373** |

U.S. ARMY

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

November 9, 2007

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPROLLER)

SUBJECT: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (Report No. D-2008-021)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army General Fund Consolidated Balance Sheet as of September 30, 2007 and 2006, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Statement of Custodial Activity and related notes for the FYs then ended.[1] The basic financial statements are the responsibility of Army management. The Army is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to express an opinion on the Army General Fund FY 2007 Financial Statements because of limitations on the scope of our work. Thus, the basic financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the basic financial statements and should be considered in assessing the results of our work.

**Disclaimer of Opinion on the Financial Statements**

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army General Fund FY 2007 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (GAAP), and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2007. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Therefore, we did not perform auditing procedures required by U.S. Government auditing standards and Office of Management and Budget (OMB) Bulletin No. 07-04 to determine whether material amounts on the financial statements were fairly presented. Prior audits have identified, and the Army has also acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses affect the reliability of certain information contained in the annual financial statements—much of which is taken from the same data sources as the basic financial statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the basic financial statements. Further, the purpose of the audit was not to express an opinion on Management Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, Other

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

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

Accompanying Information, and Performance Measures accompanying the basic financial statements. Accordingly, we express no opinion on that information.

Effective in FY 2007, OMB required the Army General Fund to report the budgetary activity for the Iraqi Relief and Reconstruction Fund. In prior periods the Army General Fund did not report the budgetary activity for this fund. As a result of this change in accounting policy, the Army General Fund recognized a prior period adjustment to decrease Cumulative Results of Operations by $3.8 billion and increase Unexpended Appropriations by the same amount. This is discussed in detail in Notes 1.Z. and 19.

**Summary of Internal Control**

In planning our work, we considered Army internal controls 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. However, previously identified control weaknesses, all of which are material, continued to exist in the following areas:

- **Financial Management Systems**
- **Fund Balance with Treasury**
- **Inventory**
- **General Property, Plant, and Equipment**
- **Environmental Liabilities**
- **Intragovernmental Eliminations**
- **Accounting Adjustments**
- **Statement of Net Cost**
- **Abnormal Account Balances**
- **Accounts Receivable**
- **Accounts Payable**
- **Statement of Budgetary Resources**
- **Reconciliation of Net Cost of Operations to Budget**



A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[3]

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a

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

combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP.

Our internal control work (conducted as part of prior audits) would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, most of which we consider to be material internal control weaknesses. The Army identified all 13 of the material weaknesses as areas of concern in its FY 2007 Statement of Assurance on Management Controls.

**Summary of Compliance with Laws and Regulations**

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because management acknowledged that instances of noncompliance identified in prior audits continue to exist. The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that Army financial management systems do not substantially comply with Federal financial management system requirements, GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Army was in compliance with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. 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 GAAP;
- establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Office of the Deputy Assistant Secretary of the Army (Financial Operations) who then provided us technical comments, which we incorporated as appropriate. Army General Fund officials expressed their continuing commitment to address the problems this report outlines.

Paul J. Granetto

Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing
Service

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. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the Army General Fund financial management operations.

**Previously Identified Material Weaknesses.** Management acknowledged that previously identified significant deficiencies, all of which are material, continued to exist in the following areas.

**Financial Management Systems.** Army accounting systems lacked a single, standard transaction-driven general ledger. The Army also needed to upgrade or replace many of its non-financial feeder systems so that financial statement reporting requirements could be met. The lack of a single, standard transaction-driven general ledger will continue to prevent the Army from preparing auditable financial statements.

The Army has acknowledged that its financial management systems were unable to provide adequate evidence supporting various material amounts on the financial statements, and did not comply with Federal financial management system requirements, applicable accounting principles generally accepted in the United States of America (GAAP), and the United States Standard General Ledger at the transaction level. Until the Army's systems and processes are updated in accordance with GAAP, the Army's financial data will be based on budgetary transactions, non-financial feeder system transactions, and adjustments for known accruals of major items. The Army derives its reported values and information for major asset and liability accounts from non-financial feeder systems, such as inventory and logistics systems. Major assets include Property, Plant, and Equipment and Inventory and Related Property. In addition, budgetary transactions were recorded in line items such as Fund Balance With Treasury, Accounts Receivable, Accounts Payable, Gross Costs, and Earned Revenue.

**Fund Balance With Treasury.** DoD and its Components, including the Army, have had long-standing problems in reconciling transaction activity in their Fund Balance with Treasury accounts. Appropriation balances recorded in the accounting records do not agree with balances held at Treasury. Therefore, the Defense Finance and Accounting Service Indianapolis Operations (DFAS Indianapolis) made unsupported adjustments that had a net effect of $12.3 billion on the three Fund Balance With Treasury line items.

**Inventory.** Inventories are valued and reported at approximate historical cost using latest acquisition cost adjusted for holding gains and losses. The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. However, the Army has acknowledged that significant amounts of Operating Materials and Supplies were expensed when they were purchased instead of when they were consumed.

**General Property, Plant, and Equipment.** Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost, and that depreciation expense be recognized on all General Property, Plant, and Equipment. The Army has acknowledged that real property and Military Equipment were not recorded at acquisition or historical cost and did not include all costs needed to bring these assets to a form and location suitable for their intended use. Also, the Army could not support the reported cost of Military Equipment in accordance with Statement of Federal Financial Accounting Standards No. 6. The Army also lacks financial accountability systems for all its Military Table of Equipment unit property books that comply with the Federal Financial Management Improvement Act of 1996.

**Environmental Liabilities.** The Army has not properly estimated and reported its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non-Defense Environmental Restoration Program on the financial statements were not adequate to establish or maintain sufficient documentation and audit trails. Although estimators were properly qualified to perform estimates, the Army did not document supervisory reviews of estimates and did not have adequate quality control programs in place to ensure the reliability of data.

**Intragovernmental Eliminations.** DoD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because of systems' limitations, as the majority of the systems currently used within DoD do not allow the capture of buyer-side information for use in reconciliations and eliminations. DoD and Army accounting systems were unable to capture trading partner data at the transaction level to facilitate required trading partner eliminations, and DoD guidance did not require adequate support for eliminations. In addition, DoD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. Therefore, DFAS Indianapolis made $35.5 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of Army's trading partners.

**Accounting Adjustments.** Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund financial statements. DFAS Indianapolis did not adequately support $258.2 billion in journal voucher adjustments used to prepare the Army General Fund financial statements. Specifically, DFAS Indianapolis made:

- $91.2 billion in unsupported adjustments to force amounts to agree with other sources of information and records or financial statement lines,
- $35.5 billion in unsupported adjustments to intragovernmental accounts to force the accounts to agree with the records of the Army's trading partners,
- $47.8 billion in unsupported adjustments to correct errors and reclassify amounts to other accounts, and
- $83.7 billion in unsupported adjustments to force general ledger accounts to agree with status of appropriations data (or ending balance adjustments) without reconciling the differences or determining which data source was correct.



Attachment

**Statement of Net Cost.** The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DoD strategic and performance plans required by the Government Performance and Results Act. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation categories. The amounts presented in the Statement of Net Cost are based on funding, obligation, and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as required by GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from non-financial feeder systems. In addition, Army General Fund budgetary and proprietary information does not correlate. As a result, DFAS Indianapolis made $22.9 billion in unsupported adjustments to force costs to agree with obligation information.

**Abnormal Account Balances.** DFAS Indianapolis did not detect, report, or take action to eliminate abnormal balances included in the Army General Fund accounting records. The FY 2007 trial balance data for the Army General Fund included 141 general ledger accounts with $163.8 billion of unresolved abnormal balances for proprietary and budgetary accounts used by DFAS Indianapolis as part of the compilation of the Army General Fund financial statements. The FY 2007 trial balance data for the Army General Fund included an additional $847.5 billion of abnormal balances in 58 budgetary general ledger accounts that were not used in compiling the Army General Fund financial statements. DFAS Indianapolis considers this budgetary data so unreliable that the trial balance for budgetary accounts must be constructed from other budgetary reports.

In response to DoD IG Report No. D-2004-118, "Army General Fund Controls Over Abnormal Balances For Field Accounting Activities," September 28, 2004, DFAS Indianapolis stated that the Defense Departmental Reporting System-Budgetary Module (Budgetary Module) would significantly reduce abnormal balances in accounting records. DFAS Indianapolis estimated the completion date for corrective action to be September 30, 2005. However, the implementation of the Budgetary Module has been delayed until FY 2008. The DoD Financial Management Regulation has not been revised to require the disclosure of the amounts of unresolved abnormal balances for all financial statement lines affected in the notes to the financial statements. Although the Army reported abnormal balances as an area of concern in its FY 2006 Annual Statement of Assurance, it did not disclose abnormal balances in the financial statement footnotes. Abnormal balances not only distort the Army General Fund financial statements, but also indicate internal control and operational deficiencies and may conceal instances of fraud.

**Accounts Receivable.** The Army has acknowledged weaknesses in its accounts receivable management. The weaknesses are considered to be DoD-wide and apply to both public and intragovernmental receivables at the Army General Fund level. Weaknesses include:

- noncompliance with policies and procedures regarding referrals to the Debt Management Office and the Department of Treasury and for write-offs of 2-year-old debt,
- a lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems, and
- a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

As a result, DFAS Indianapolis made $1.1 billion in unsupported adjustments for FY 2007 that decreased the Accounts Receivable balances by $845.1 million.

**Accounts Payable.** The Army is unable to properly account for and report Accounts Payable. DFAS Indianapolis made $6.0 billion in unsupported adjustments for FY 2007 that decreased Accounts Payable by $25.5 million. In addition, the Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payables.

**Statement of Budgetary Resources.** The Army accounting systems do not provide or capture data needed for obligations incurred or prior year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements." Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined. The Statement of Budgetary Resources does not include eliminating entries and, therefore, a Disaggregated Statement of Budgetary Resources is included in the Required Supplementary Information section of the financial statements. The Army uses budget execution data, which is composed of transaction report codes, to prepare the monthly Standard Form 133 and the quarterly Federal Agencies Centralized Trial Balance System II budgetary general ledger accounts. DFAS Indianapolis personnel then use the Federal Agencies Centralized Trial Balance System II data to prepare the Statement of Budgetary Resources. Because both the Standard Form 133 and the Statement of Budgetary Resources are prepared using budget execution data, there is no true reconciliation between the two reports. OMB Circular No. A-136, "Financial Reporting Requirements," states that the Statement of Budgetary Resources should be predominantly derived from an entity's budgetary general ledger, instead of being based on budget execution data. In FY 2007, DFAS Indianapolis prepared $8.1 billion in unsupported adjustments that affected general ledger accounts used in the Statement of Budgetary Resources.

DFAS Indianapolis reported budget execution data to the Department of the Treasury that did not agree with the data reported on the Army financial statements. The differences between the amounts reported on the Standard Forms 133 provided to OMB and the Army General Fund Statement of Budgetary Resources totaled $110.3 billion for third quarter FY 2007. This occurred because DFAS Indianapolis did not perform an effective reconciliation among Federal Agencies Centralized Trial Balance System II data, the Army General Fund Statement of Budgetary Resources, and the Standard Form 133 prepared for the Army. As a result, DFAS Indianapolis used one set of budget execution data to manage Army funds, but provided the Department of the Treasury a different set of budget execution data for the Office of Management and Budget's use. Also, DFAS Indianapolis reported inaccurate and misleading budget execution data on the Standard Form 133 provided to the Army, Army Statements of Budgetary Resources and the related footnote, and to the Department of the Treasury for the Standard Forms 133 provided to the Office of Management and Budget. In addition, DFAS Indianapolis will perpetuate the material differences in the newly-fielded accounting system if the differences are not corrected.



**Reconciliation of Net Cost of Operations to Budget.** The Statement of Federal Financial Accounting Standards No. 7 "requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. The Army General Fund is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without preparing $22.9 billion in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

**Other Significant Deficiencies.** During prior years, as part of our financial-related audits, we noted deficiencies related to contingent legal liabilities and cash in the custody of agents.

The Army legal representation process did not provide meaningful assessments of potential liabilities and was not linked to the Army process for reporting and disclosing contingent legal liabilities on the financial statements. The legal representation letter from the Army Office of General Counsel and its attached management schedule did not corroborate either the $443.2 million reported on the Balance Sheet as part of Non-Federal Other Liabilities or the $446.8 million disclosed as contingent legal liabilities on footnote 16 in the FY 2007 Army General Fund Financial Statements.

Internal and physical controls over Army Cash and Other Monetary Assets were inadequate and cash in the custody of agents reported on the Monthly Accountability Form (Standard Form 1219) was unreliable and was not auditable. DFAS Indianapolis used the monthly Consolidated Statement of Accountability to make a $2.18 billion adjustment to the accounting records because the Army and DFAS Indianapolis were not in compliance with reporting and control requirements mandated by OMB and DoD. As a result, there was no assurance that cash transactions were recorded, accumulated, and reported properly and that cash was adequately safeguarded. In addition, the Army may have materially overstated the $2.18 billion of Cash and Other Monetary Assets reported on the Army General Fund Balance Sheet.

Internal and physical controls over out-of-country payments were inadequate. As a result, disbursements may not be adequately supported.

These financial management deficiencies may cause inaccurate management information. As a result, Army management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

## Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

**Federal Financial Management Improvement Act of 1996.** The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Army to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2007, the Army did not fully comply with FFMIA. The Army acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2007.

**Government Performance and Results Act.** Congress enacted the Government Performance and Results Act of 1993 (GPRA) to establish strategic planning and performance measurement in the Federal Government. Strategic plans, annual performance plans, and annual program performance reports comprise the main elements of GPRA. Although the Army has established a strategic plan as a blueprint for achieving auditable financial statements, it is not supported by evidence of actions taken, completed, or needed to meet the milestones. Further, there are no uniform methods or procedures to report percent completion and start/finish dates of tasks, and not all system implementation dates were aligned with milestones in the plan. Additionally, the Army did not comply with the GPRA because it did not have cost accounting systems in place to collect, process, and report operating costs. This resulted in the Army General Fund Statement of Net Cost being unable to provide cost-of-operations data that were consistent with the GPRA goals and measures.

### Audit Disclosures

The Secretary of the Army acknowledged to us on August 27, 2007, that the Army financial management and feeder systems cannot provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continue to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act; Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act); Federal Credit Reform Act; Pay and Allowance System for Civilian Employee; Prompt Payment Act and; Improper Payment Act.

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because either previous audit reports contained recommendations for corrective actions or audit projects currently in process will include appropriate recommendations.



Attachment

# Limitations

## *LIMITATIONS OF THE FINANCIAL STATEMENTS*

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

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

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

*Department of Defense - Army Working Capital Fund*

# CONSOLIDATED BALANCE SHEET

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

| | 2007 Consolidated | 2006 Consolidated |
|---|---|---|
| **ASSETS (Note 2)** | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | | |
| Entity | $ 2,279,084 | $ 875,344 |
| Non-Entity Seized Iraqi Cash | 0 | 0 |
| Non-Entity-Other | 0 | 0 |
| Investments (Note 4) | 0 | 0 |
| Accounts Receivable (Note 5) | 325,168 | 243,005 |
| Other Assets (Note 6) | 3,002 | 8,670 |
| Total Intragovernmental Assets | $ 2,607,254 | $ 1,127,019 |
| Cash and Other Monetary Assets (Note 7) | $ 0 | $ 0 |
| Accounts Receivable, Net (Note 5) | 16,466 | 9,355 |
| Loans Receivable (Note 8) | 0 | 0 |
| Inventory and Related Property, Net (Note 9) | 19,728,687 | 17,939,567 |
| General Property, Plant and Equipment, Net (Note 10) | 996,885 | 1,267,070 |
| Investments (Note 4) | 0 | 0 |
| Other Assets (Note 6) | 367,391 | 417,914 |
| **TOTAL ASSETS** | $ 23,716,683 | $ 20,760,925 |
| **LIABILITIES (Note 11)** | | |
| Intragovernmental: | | |
| Accounts Payable (Note 12) | $ 96,452 | $ 78,917 |
| Debt (Note 13) | 0 | 0 |
| Other Liabilities (Note 15 & 16) | 55,229 | 58,150 |
| Total Intragovernmental Liabilities | $ 151,681 | $ 137,067 |
| Accounts Payable (Note 12) | $ 1,023,839 | $ 576,037 |
| Military Retirement and Other Federal Employment Benefits (Note 17) | 243,112 | 262,499 |
| Environmental and Disposal Liabilities (Note 14) | 0 | 0 |
| Loan Guarantee Liability (Note 8) | 0 | 0 |
| Other Liabilities (Note 15 and Note 16) | 404,317 | 468,617 |
| **TOTAL LIABILITIES** | $ 1,822,949 | $ 1,444,220 |
| **NET POSITION** | | |
| Unexpended Appropriations - Earmarked Funds (Note 23) | $ 0 | $ 0 |
| Unexpended Appropriations - Other Funds | 0 | 0 |
| Cumulative Results of Operations - Earmarked Funds | 0 | 0 |
| Cumulative Results of Operations - Other Funds | 21,893,734 | 19,316,705 |
| **TOTAL NET POSITION** | $ 21,893,734 | $ 19,316,705 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 23,716,683 | $ 20,760,925 |

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

# CONSOLIDATED STATEMENT OF NET COST

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

| | 2007 Consolidated | 2006 Consolidated |
|---|---|---|
| **Program Costs** | | |
| Gross Costs | $ 16,159,985 | $ 15,905,976 |
| (Less: Earned Revenue) | (18,682,923) | (17,697,044) |
| Net Program Costs | $ (2,522,938) | $ (1,791,068) |
| **Cost Not Assigned to Programs** | 0 | 0 |
| **(Less: Earned Revenue Not Attributable to Programs)** | 0 | 0 |
| **Net Cost of Operations** | $ (2,522,938) | $ (1,791,068) |

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

*Department of Defense - Army Working Capital Fund*

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2007 Earmarked Funds | 2007 All Other Funds | 2007 Eliminations | 2007 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 19,316,705 | $ 0 | $ 19,316,705 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | 0 | 0 | 0 |
| Corrections of errors (+/-) | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 19,316,705 | 0 | $ 19,316,705 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | 627,790 | 0 | 627,790 |
| Nonexchange revenue | 0 | 0 | 0 | 0 |
| Donations and forfeitures of cash and cash equivalents | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement | 0 | (145,700) | 0 | (145,700) |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement (+/-) | 0 | (345,832) | 0 | (345,832) |
| Imputed financing from costs absorbed by others | 0 | 163,133 | 0 | 163,133 |
| Other (+/-) | 0 | (245,300) | 0 | (245,300) |
| **Total Financing Sources** | $ 0 | $ 54,091 | $ 0 | $ 54,091 |
| **Net Cost of Operations (+/-)** | 0 | (2,522,938) | 0 | (2,522,938) |
| **Net Change** | $ 0 | $ 2,577,029 | $ 0 | $ 2,577,029 |
| **Cumulative Results of Operations** | $ 0 | $ 21,893,734 | $ 0 | $ 21,893,734 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 0 | $ 0 | $ 0 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | 0 | 0 | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 0 | $ 0 | $ 0 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 627,854 | 0 | 627,854 |
| Appropriations transferred-in/out | 0 | 0 | 0 | 0 |
| Other adjustments (rescissions, etc) | 0 | (64) | 0 | (64) |
| Appropriations used | 0 | (627,790) | 0 | (627,790) |
| Total Budgetary Financing Sources | $ 0 | $ 0 | $ 0 | $ 0 |
| Unexpended Appropriations | 0 | 0 | 0 | 0 |
| Net Position | $ 0 | $ 21,893,734 | $ 0 | $ 21,893,734 |



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

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2006 Earmarked Funds | 2006 All Other Funds | 2006 Eliminations | 2006 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 17,091,034 | $ 0 | $ 17,091,034 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | 0 | 0 | 0 |
| Corrections of errors (+/-) | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 17,091,034 | $ 0 | $ 17,091,034 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | 459,521 | 0 | 459,521 |
| Nonexchange revenue | 0 | 0 | 0 | 0 |
| Donations and forfeitures of cash and cash equivalents | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement | 0 | 0 | 0 | 0 |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement (+/-) | 0 | 7 | 0 | 7 |
| Imputed financing from costs absorbed by others | 0 | 157,074 | 0 | 157,074 |
| Other (+/-) | 0 | (181,999) | 0 | (181,999) |
| **Total Financing Sources** | $ 0 | $ 434,603 | $ 0 | $ 434,603 |
| **Net Cost of Operations (+/-)** | 0 | (1,791,068) | 0 | (1,791,068) |
| **Net Change** | $ 0 | $ 2,225,671 | $ 0 | $ 2,225,671 |
| **Cumulative Results of Operations** | $ 0 | $ 19,316,705 | $ 0 | $ 19,316,705 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 0 | $ 0 | $ 0 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | 0 | 0 | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 0 | $ 0 | $ 0 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 459,521 | 0 | 459,521 |
| Appropriations transferred-in/out | 0 | 0 | 0 | 0 |
| Other adjustments (rescissions, etc) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | (459,521) | 0 | (459,521) |
| Total Budgetary Financing Sources | $ 0 | $ | $ | $ |
| Unexpended Appropriations | 0 | | | |
| Net Position | $ 0 | $ 19,316,705 | $ 0 | $ 19,316,705 |



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

*Department of Defense - Army Working Capital Fund*

# COMBINED STATEMENT OF BUDGETARY RESOURCES

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

| | Budgetary Financing Accounts | | Non-Budgetary Financing Accounts | |
|---|---|---|---|---|
| | 2007 Combined | 2006 Combined | 2007 Combined | 2006 Combined |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 1,791,465 | $ 1,176,499 | $ 0 | $ 0 |
| Recoveries of prior year unpaid obligations | 1,130,769 | 1,372,092 | 0 | 0 |
| Budget authority | | | | |
| Appropriation | 627,854 | 459,521 | 0 | 0 |
| Borrowing authority | 0 | 0 | 0 | 0 |
| Contract authority | 10,715,333 | 9,970,837 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 15,227,289 | 14,013,375 | 0 | 0 |
| Change in receivables from Federal sources | 103,333 | (142,805) | 0 | 0 |
| Change in unfilled customer orders | | | | |
| Advance received | 29,395 | 39,953 | 0 | 0 |
| Without advance from Federal sources | 1,336,140 | 59,027 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 28,039,344 | $ 24,399,908 | $ 0 | $ 0 |
| Nonexpenditure transfers, net, anticipated and actual | (145,700) | 0 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 | 0 |
| Permanently not available | (11,534,744) | (10,299,718) | 0 | 0 |
| **Total Budgetary Resources** | $ 19,281,134 | $ 16,648,781 | $ 0 | $ 0 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 0 | $ 0 | $ 0 | $ 0 |
| Reimbursable | 16,764,820 | 14,857,316 | 0 | 0 |
| Subtotal | $ 16,764,820 | $ 14,857,316 | $ 0 | $ 0 |
| Unobligated balance: | | | | |
| Apportioned | 2,516,314 | 1,791,465 | 0 | 0 |
| Exempt from apportionment | 0 | 0 | 0 | 0 |
| Subtotal | $ 2,516,314 | $ 1,791,465 | $ 0 | $ 0 |
| Unobligated balance not available | 0 | 0 | 0 | 0 |
| **Total status of budgetary resources** | $ 19,281,134 | $ 16,648,781 | $ 0 | $ 0 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 9,555,896 | $ 10,331,509 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (4,097,980) | (4,181,756) | 0 | 0 |
| Total unpaid obligated balance | $ 5,457,916 | $ 6,149,753 | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 16,764,820 | $ 14,857,316 | $ 0 | $ 0 |
| Less: Gross outlays | (14,335,033) | (14,260,837) | 0 | 0 |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | $ (1,130,769) | $ (1,372,092) | $ 0 | $ 0 |
| Change in uncollected customer payments from Federal sources (+/-) | (1,439,473) | 83,777 | 0 | 0 |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 10,854,914 | 9,555,896 | 0 | 0 |
| Less: Uncollected customer payments (+/-) from Federal sources (-) | (5,537,453) | (4,097,980) | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | 5,317,461 | 5,457,916 | 0 | 0 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | $ 14,335,033 | $ 14,260,837 | $ 0 | $ 0 |
| Less: Offsetting collections | (15,256,685) | (14,053,327) | 0 | 0 |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 | 0 |
| **Net Outlays** | $ (921,652) | $ 207,510 | $ 0 | $ 0 |

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

# Note 1. Significant Accounting Policies

## 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Army Working Capital Fund (AWCF), as required by the "Chief Financial Officers Act of 1990," expanded by the "Government Management Reform Act of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the AWCF in accordance with the "DoD Financial Management Regulation (FMR)," the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements," and to the extent possible, Federal generally accepted accounting principles (Federal GAAP). Effective with the 4th Quarter, Fiscal Year (FY) 2006, AWCF no longer publishes consolidating/combining financial statements. The accompanying financial statements account for all resources for which the AWCF is responsible, unless otherwise noted.

Information relative to classified assets, programs and operations is excluded from the statements, or otherwise aggregated and reported, in such a manner that it is not discernable.

The AWCF is unable to fully implement all elements of Federal GAAP and OMB Circular A-136 due to limitations of its financial and nonfinancial management processes and systems that feed into the financial statements. The AWCF derives its reported values and information for major asset and liability categories largely from nonfinancial feeder systems, such as inventory and logistics systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. The AWCF continues to implement processes and system improvements addressing these limitations.

The AWCF currently has eight auditor-identified financial statement material weaknesses: (1) financial management systems; (2) inventory; (3) general property, plant, and equipment; (4) intragovernmental eliminations; (5) other accounting entries; (6) accounts payable; (7) Statement of Net Cost; and (8) Reconciliation of Net Cost of Operations to Budget.

## 1.B. Mission of the Reporting Entity

The AWCF is part of the Defense Working Capital Fund, and is divided into two separate business areas: Supply Management and Industrial Operations. These business areas ensure delivery of critical items, such as petroleum products, repair parts, consumable supplies, depot maintenance services, munitions, and weapons to support the deployment and projection of lethal force as and when required by the nation.

## 1.C. Appropriations and Funds

Working capital funds (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. Financial resources to replenish the corpus, and to permit continuing operations, are generated by the acceptance of customer orders and additional appropriations. The AWCF operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision-making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action. From time-to-time, however, Congress may provide additional appropriations to support the WCF with an infusion of cash when revenues are inadequate to cover costs within the corpus.

## 1.D. Basis of Accounting

The AWCF generally records transactions on an accrual accounting basis as required by Federal GAAP. For FY 2007, AWCF financial management systems are unable to meet all of the requirements for full accrual accounting. Many AWCF financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP for federal agencies and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP.

The DoD has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). At this time, not all AWCF accounting systems are USSGL compliant. With the implementation of the Logistics Modernization Program (LMP), the AWCF is working toward a cost reporting methodology that will provide the cost information required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

As of December 31, 2003, LMP was implemented at Tobyhanna Army Depot, Communications–Electronics Life Cycle Management Center, and other Army Materiel Command activities. Until LMP is fully implemented, and all of the processes are updated to collect and report financial information as required by Federal GAAP, some of AWCF financial data will be derived from budgetary transactions (obligations, disbursements, collections) and nonfinancial feeder systems. For example, most financial information presented on the Statement of Net Cost is based on accrued costs; however, some of the financial information is based on obligations and disbursements.

## 1.E. Revenues and Other Financing Sources

The AWCF Industrial Operations activities recognize revenue according to the percentage-of-completion method. Supply Management activities recognize revenue when an inventory item is sold. Prices set for products and services offered through AWCF are intended to recover the full costs (cost plus administrative fees) incurred by these activities. Unearned revenue is recorded as deferred revenue until earned.

Other financing sources reported by AWCF do not include non-monetary support provided by our allies for common defense and mutual security. The U.S. has agreements with foreign countries that include both direct and indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is serviced in a port.

## 1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. However, because AWCF financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accruals are made for certain financial events and transactions.



## 1.G. Accounting for Intragovernmental Activities

The DoD proportionate share of public debt and related expenses of the Federal Government is not included. Debt issued by the Federal Government and the related costs are not apportioned to Federal agencies. The DoD financial statements, therefore, do not report any portion of the public debt or interest, nor do the financial statements report the source of public financing whether from issuance of debt or tax revenues.

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. However, the AWCF cannot accurately eliminate intragovernmental transactions by customer because the AWCF systems do not track at the transaction level. Generally, seller entities within DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, where the amounts do not match, buyer-side records are adjusted to agree with DoD seller-side balances. The volume of intragovernmental transactions is so large that after-the-fact reconciliations cannot be accomplished effectively with existing or foreseeable resources. The DoD is developing long-term system improvements that will ensure Intragovernmental information is accurate and will include sufficient edits and controls to eliminate the need for after-the-fact reconciliations.

The U.S. Treasury Financial Management Service (FMS) is responsible for eliminating transactions between DoD and other federal agencies. The U.S. Treasury Financial Manual, Part 2 – chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government" and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide," provide guidance for reporting and reconciling intragovernmental balances. While AWCF is unable to fully reconcile intragovernmental transactions with all federal partners, AWCF is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor (DOL) and benefit program transactions with the Office of Personnel Management (OPM).

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

## 1.H. Transactions with Foreign Governments and International Organizations

Each year, AWCF sells defense items and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the U.S. government. Payments in U.S. dollars are required in advance and are booked as liabilities until such time as the goods are delivered.

## 1.I. Funds with the U.S. Treasury

The U.S. Treasury maintains AWCF monetary financial resources. The DFAS, Military Services, U.S. Army Corps of Engineers (USACE) disbursing stations as well as the Department of State financial service centers process the majority of cash collections, disbursements, and adjustments for the AWCF. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the U.S. Treasury's system. Differences between AWCF and U.S. Treasury's records sometime result and are subsequently reconciled.



## 1.J. Foreign Currency

Not applicable.

## 1.K. Accounts Receivable

As presented in the Balance Sheet, accounts receivable includes three categories: accounts receivable, claims, and refunds from other federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Receivables from the public generally arise from the provision of goods and services to state, local and foreign governments. Refunds receivable, however, are overpayments by the Federal Government in the process of being collected.

An allowance for estimated uncollectibles is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances by fund type. The AWCF bases the estimate of uncollectible accounts receivable from the public on percentage of aged receivables by category. The allowance is calculated by using 50% of aged receivables in the 180-day to 2-year category and 100% of aged receivables in the greater-than-2-year category. This excludes foreign debt and debt as reported in the Defense Debt Management System. The allowance is updated annually based on the aged accounts receivable at the end of the 2nd Quarter. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are resolved between the agencies in accordance with dispute resolution procedures in the Intragovernmental Business Rules published in the Treasury Financial Manual, available online at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

## 1.L. Direct Loans and Loan Guarantees

Not applicable.

## 1.M. Inventories and Related Property

The inventory reported in AWCF financial statements is not all valued using the same valuation method. The AWCF inventories are reported using the Latest Acquisition Cost (LAC), which approximates historical cost, adjusted for holding gains and losses, and Moving Average Cost (MAC), which computes a new average cost each time a purchase is made. The AWCF uses LAC method because its inventory systems were designed for materiel management rather than GAAP accounting, except for activities that have transitioned to LMP. The systems provide accountability and visibility over inventory items.

The AWCF values approximately 17% of resale inventory using the moving average cost method. The AWCF reports the remaining 83% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property."

The SFFAS No. 3 distinguishes between inventory held for sale and inventory held in reserve for future sale. There is no management or valuation difference between the two USSGL accounts. Further, DoD manages only military or government-specific materiel under normal conditions. Items commonly used in, and available from, the commercial sector are not managed in DoD materiel management activities. "Materiel" is a unique term that relates to military force management, and includes all items (including ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts and support equipment, but excluding real property, installations and utilities) necessary to equip, operate, maintain and support military activities without distinction as to its application for administrative or combat purposes. Items commonly used in, and available from, the commercial sector are not managed in the AWCF materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The AWCF holds materiel based on military need and support for contingencies. Therefore, AWCF does not attempt to account separately for items held for current or future sale.



The AWCF accounts for condemned materiel as excess, obsolete and unserviceable. The net value of this type of condemned materiel is zero, because the costs of disposal are greater than the potential scrap value.

Past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by AWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make suitable for sale. It may be more economical to repair than to procure these inventory items. Because AWCF often relies on weapon systems and machinery no longer in production, AWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile and armed military force.

## 1.N. Investments

Not applicable.

## 1.O. General Property, Plant and Equipment

General Property, Plant & Equipment (GPP&E) assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds DoD capitalization threshold. In FY 2006, the capitalization threshold was revised from $100,000 to $20,000 for real property. The current $100 thousand capitalization threshold remained unchanged for the remaining GPP&E categories. The Army is executing the Real Property Audit Readiness Plan. The target completion date for audit readiness, which includes substantiation of real property values, is FY 2009. Beginning in FY 2009, the Army will incorporate the revised capitalization threshold for financial statement reporting. All GPP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, GPP&E with an acquisition cost of $15,000, $25,000, and $50,000 for FY 1993, FY 1994, and FY 1995 respectively, and an estimated useful life of two or more years was capitalized. No adjustment was made for WCF assets. These assets remain capitalized and reported on AWCF financial statements.

When it is in the best interest of the government, AWCF provides government property to contractors to complete contract work. The AWCF 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 GPP&E exceeds the DoD capitalization threshold, Federal accounting standards require that it be reported on AWCF Balance Sheet.

The DoD is developing new policies and a contractor reporting process that will provide appropriate GPP&E information for future financial statement reporting purposes. Accordingly, AWCF reports only government property in the possession of contractors that is maintained in AWCF property systems. The DoD has issued new property accountability and reporting requirements that require AWCF to maintain, in their property systems, information on all property furnished to contractors. This action and other DoD-proposed actions are structured to capture and report the information necessary for compliance with Federal accounting standards.

## 1.P. Advances and Prepayments

The DoD policy is to record advances and prepayments in accordance with Federal GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD policy is to expense and/or classify assets when the related goods and services are received.



## 1.Q. Leases

Not applicable.

## 1.R. Other Assets

Other assets includes military and civil service employee pay advances, travel advances, and certain contract financing payments, that are not reported elsewhere on the AWCF Balance Sheet.

The AWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, AWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion, which the Defense Federal Acquisition Regulation Supplement (DFARS) authorizes only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments for real property are reported as Construction in Progress in Note 10. It is DoD policy to record certain contract financing payments as Other Assets.

## 1.S. Contingencies and Other Liabilities

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

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The AWCF risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents, property or environmental damages, and contract disputes.

## 1.T. Accrued Leave

The AWCF reports as liabilities earned civilian annual leave that has been accrued and not used as of the Balance Sheet date. Earned sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

## 1.U. Net Position

Net position consists of cumulative results of operations. 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). Beginning with FY 1998, the cumulative results also include donations and transfers-in/out of assets without reimbursement.



## 1.V. Treaties for Use of Foreign Bases

Not applicable.

## 1.W. Comparative Data

Not applicable.

## 1.X. Unexpended Obligations

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

## 1.Y. Undistributed Disbursements and Collection

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

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. The AWCF does not follow this procedure. All AWCF undistributed collections are derived from interfund transactions that process collections from federal sources only. Undistributed disbursements are allocated between federal and non-federal based on disbursement history accumulated fiscal year to date. The AWCF records unsupported undistributed disbursements in accounts payable and unsupported undistributed collections in other liabilities.

## 1.Z. Significant Events

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with the Office of Management and Budget (OMB) Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

# Note 2. Nonentity Assets

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Intragovernmental Assets** | | |
| A. Fund Balance with Treasury | $ 0 | $ 0 |
| B. Accounts Receivable | 0 | 0 |
| C. Total Intragovernmental Assets | $ 0 | $ 0 |
| **2. Nonfederal Assets** | | |
| A. Cash and Other Monetary Assets | $ 0 | $ 0 |
| B. Accounts Receivable | 0 | 0 |
| C. Other Assets | 0 | 0 |
| D. Total Nonfederal Assets | $ 0 | $ 0 |
| **3. Total Nonentity Assets** | $ 0 | $ 0 |
| **4. Total Entity Assets** | $ 23,716,683 | $ 20,760,925 |
| **5. Total Assets** | $ 23,716,683 | $ 20,760,925 |

Nonentity assets are assets held by an entity but are not available for use in the operations of the entity. The AWCF does not have nonentity assets.

Entity assets are resources that AWCF has the authority to use or where management is legally obligated to use funds to meet entity obligations.

# Note 3. Fund Balance with Treasury

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Fund Balances** | | |
| A. Appropriated Funds | $ 0 | $ 0 |
| B. Revolving Funds | 2,279,084 | 875,344 |
| C. Trust Funds | 0 | 0 |
| D. Special Funds | 0 | 0 |
| E. Other Fund Types | 0 | 0 |
| F. Total Fund Balances | $ 2,279,084 | $ 875,344 |
| **2. Fund Balances Per Treasury Versus Agency** | | |
| A. Fund Balance per Treasury | $ 2,279,084 | $ 875,344 |
| B. Fund Balance per Army Working Capital Fund | 2,279,084 | 875,344 |
| **3. Reconciling Amount** | $ 0 | $ 0 |

## Status of Fund Balance with Treasury

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Unobligated Balance** | | | | |
| A. Available | $ | 2,516,314 | $ | 1,791,465 |
| B. Unavailable | | 0 | | 0 |
| **2. Obligated Balance not yet Disbursed** | $ | 10,854,914 | $ | 9,555,896 |
| **3. Nonbudgetary FBWT** | $ | 0 | $ | 0 |
| **4. NonFBWT Budgetary Accounts** | $ | (11,092,144) | $ | (10,472,018) |
| **5. Total** | $ | 2,279,084 | $ | 875,343 |

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

Unobligated Balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. Unobligated Balance is classified as available or unavailable and is associated with contract authority and customer orders. There are no restrictions on the Unobligated Balance.

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

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

NonFBWT Budgetary Accounts represent adjustments to budgetary accounts that do not affect FBWT. This category reduces the Status of FBWT.

## Disclosures Related to Suspense/Budget Clearing Accounts

The Suspense/Budget Clearing Accounts shown above are maintained and reported by the Army General Fund. Some transactions relating to the AWCF may be in suspense accounts, but are not identifiable. When they are identified to AWCF, they will be transferred from the suspense / clearing account to the correct U.S. Treasury appropriation.

## Disclosures Related to Problem Disbursements

| As of September 30 | | 2005 | | 2006 | | 2007 | | (Decrease)/ Increase from FY 2006 to 2007 |
|---|---|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | | | | | | | | |
| **1. Total Problem Disbursements, Absolute Value** | | | | | | | | |
| A. Unmatched Disbursements (UMDs) | $ | 10,064 | $ | 4,843 | $ | 50,868 | $ | 46,025 |
| B. Negative Unliquidated Obligations (NULO) | | 3,773 | | 2,703 | | 628 | | (2,075) |
| C. In-Transit Disbursements | | 94,626 | | 180,610 | | 265,735 | | 85,125 |
| **Total** | $ | 108,463 | $ | 188,156 | $ | 317,231 | $ | 129,075 |

Problem Disbursements are reported as an absolute value amount. Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign (plus or minus).

An Unmatched Disbursement (UMD) occurs when a payment does not match to a corresponding obligation in the accounting system.

A Negative Unliquidated Obligation (NULO) occurs when a payment is made against a valid obligation, but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

In-transit Disbursements represent the absolute value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but have not been posted in an accounting system.

Beginning with 2nd Quarter, FY 2007, in-transit disbursements are reported as absolute values as opposed to net amounts disclosed in prior years. This reporting change applies to amounts in the note schedule for both the current and comparative years.

## Note 4. Investments and Related Interest

Not applicable.

## Note 5. Accounts Receivable

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| **1. Intragovernmental Receivables** | $ 325,168 | N/A | 325,168 | $ 243,005 |
| | | | $ | |
| **2. Nonfederal Receivables (From the Public)** | $ 20,840 | $ (4,374) | $ 16,466 | $ 9,355 |
| **3. Total Accounts Receivable** | $ 346,008 | $ (4,374) | $ 341,634 | $ 252,360 |

### Aged Accounts Receivable

| As of September 30 | 2007 | | 4th Quarter 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Intragovernmental | Nonfederal | Intragovernmental | Nonfederal |
| CATEGORY | | | | |
| **Nondelinquent** | | | | |
| Current | $ 339,057 | $ 15,214 | $ 254,993 | $ 11,930 |
| Noncurrent | 0 | 0 | 0 | 0 |
| **Delinquent** | | | | |
| 1 to 30 days | $ 2,537 | $ 407 | $ 1,822 | $ 196 |
| 31 to 60 days | 266 | 99 | 374 | 1 |
| 61 to 90 days | 261 | 23 | 119 | 19 |
| 91 to 180 days | 147 | 128 | 65 | 27 |
| 181 days to 1 year | 498 | 17 | 117 | 303 |
| Greater than 1 year and less than or equal to 2 years | 18 | 368 | 79 | 3,822 |
| Greater than 2 years and less than or equal to 6 years | 29 | 3,914 | 83 | 3 |
| Greater than 6 years and less than or equal to 10 years | 0 | 67 | 0 | 7 |
| Greater than 10 years | 0 | 603 | 0 | 588 |
| **Subtotal** | $ 342,813 | $ 20,840 | $ 257,652 | $ 16,896 |
| Less Supported Undistributed Collections | 35,391 | 0 | 21,939 | 0 |
| Less Eliminations | (53,036) | 0 | (36,586) | 0 |
| Less Other | 0 | 0 | 0 | 0 |
| **Total** | $ 325,168 | $ 20,840 | $ 243,005 | $ 16,896 |

The table above identifies aged accounts receivable groups for AWCF as reported in AWCF Monthly Receivable Data (MRD) Reports.

The balances reported as supported undistributed collections are abnormal. Abnormalities are due to differences between the U.S. Treasury and AWCF field reported collections, which are reported through two separate data feeds (expenditure reports and status reports). The AWCF is working to resolve the current abnormal balance of $35.4 million. Approximately $15.7 million of these collections were previously reported by the former Army Information Services business area that closed at the end of FY 2003. The AWCF did not properly close out and transfer existing collection balances to the Supply Management business area. In addition, $18.7 million is due to systemic problems attributed to LMP interfund billing issues. This issue will be resolved by 4th Quarter, FY 2008.

To collect delinquent accounts receivable, the AWCF follows DoD concept of operations for collections, which includes referring delinquent receivables to the Debt Management Office and requires follow-up actions at 30-day intervals with ordering activities.

The majority of accounts receivable due from the public are in a current status. The $5.6 million in delinquent accounts receivable from the public includes $5.0 million that is not available for collection due to $4.3 million in forbearance or formal appeal process, $392.8 thousand at the Department of Justice, $338.1 thousand at U.S. Treasury, and $8.9 thousand in bankruptcy. Remaining delinquent debt is being actively pursued by the AWCF.

## Note 6. Other Assets

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Intragovernmental Other Assets** | | | | |
| A. Advances and Prepayments | $ | 3,002 | $ | 8,670 |
| B. Other Assets | | 0 | | 0 |
| C. Total Intragovernmental Other Assets | $ | 3,002 | $ | 8,670 |
| **2. Nonfederal Other Assets** | | | | |
| A. Outstanding Contract Financing Payments | $ | 367,020 | $ | 417,830 |
| B. Other Assets (With the Public) | | 371 | | 84 |
| C. Total Nonfederal Other Assets | $ | 367,391 | $ | 417,914 |
| **3. Total Other Assets** | $ | 370,393 | $ | 426,584 |

**Other Assets (With the Public) consists of travel advances and prepaid expenses.**

Contract terms and conditions for certain types of contract financing payments convey certain rights to AWCF that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy; however, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Government. The Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the AWCF is not obligated to make payment to the contractor until delivery and acceptance of a satisfactory product.

The Contract Financing Payment balance of $367.0 million is comprised of $335.4 million in contract financing payments and an additional $31.6 million in estimated future payments that will be paid to the contractor upon future delivery and Government acceptance of a satisfactory product. (See additional discussion in Note 15, Other Liabilities).

# Note 7. Cash and Other Monetary Assets

Not applicable.

# Note 8. Direct Loan and/or Loan Guarantee Programs

Not applicable.

## Summary of Direct Loans and Loan Guarantees

Not applicable.

## Direct Loans Obligated

Not applicable.

## Total Amount of Direct Loans Disbursed

Not applicable.

## Subsidy Expense for Post FY 1991 Direct Loan

Not applicable.

## Subsidy Rate for Direct Loans by Program

Not applicable.

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans

Not applicable.

## Defaulted Guaranteed Loans

Not applicable.



## Guaranteed Loans Outstanding

Not applicable.

## Liabilities for Post FY 1991 Loan Guarantees, Present Value

Not applicable.

## Subsidy Expense for Loan Guarantees by Program

Not applicable.

## Subsidy Rates for Loan Guarantees by Program

Not applicable.

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

Not applicable.

## Administrative Expenses

Not applicable.

# Note 9. Inventory and Related Property

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Inventory, Net** | $ 19,728,687 | $ 17,939,567 |
| **2. Operating Materials & Supplies, Net** | 0 | 0 |
| **3. Stockpile Materials, Net** | 0 | 0 |
| **4. Total** | $ 19,728,687 | $ 17,939,567 |

## Inventory, Net

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | Inventory, Net | Valuation Method |
| **1. Inventory Categories** | | | | | |
| A. Available and Purchased for Resale | $ 23,462,505 | $ (7,568,360) | $ 15,894,145 | $ 14,757,650 | LAC,MAC |
| B. Held for Repair | 5,586,219 | (1,850,905) | 3,735,314 | 3,138,773 | LAC,MAC |
| C. Excess, Obsolete, and Unserviceable | 574,584 | (574,584) | 0 | 0 | NRV |
| D. Raw Materials | 99,228 | 0 | 99,228 | 43,144 | MAC,SP,LAC |
| E. Work in Process | 0 | 0 | 0 | 0 | AC |
| **F. Total** | $ 29,722,536 | $ (9,993,849) | $ 19,728,687 | $ 17,939,567 | |

**Legend for Valuation Methods:**
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value
SP = Standard Price
O = Other
AC = Actual Cost
MAC = Moving Average Cost

**Restrictions of Inventory Use, Sale, or Disposition:**

There are restrictions on the use, sale, or disposition of inventory classified as war reserve materiel valued at $1.6 billion (LAC/MAC), which includes petroleum products and subsistence items.

**Other Information:**

The categories listed below comprise Inventory, Net. The AWCF assigns Inventory items to a category based upon the type and condition of the asset.

Inventory Available and Purchased for Resale – spare and repair parts, clothing and textiles, petroleum products and ammunition.

Inventory Held for Repair – damaged materiel held as inventory that is more economical to repair than to dispose.

Excess, Obsolete, and Unserviceable Inventory – scrap materiel or items that cannot be economically repaired and are awaiting disposal.

Raw Materials – items consumed in the production of goods for sale or in the provision of services for a fee.

## Operating Materials and Supplies, Net

Not applicable.

## Stockpile Materials, Net

Not applicable.

# Note 10. General PP&E, Net

| As of September 30 | 2007 | | | | | 2006 |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value | Prior FY Net Book Value |
| **1. Major Asset Classes** | | | | | | |
| A. Land | N/A | N/A | $ 0 | N/A | $ 0 | $ 0 |
| B. Buildings, Structures, and Facilities | S/L | 20 Or 40 | 1,866,674 | $ (1,427,967) | 438,707 | 793,089 |
| C. Leasehold Improvements | S/L | lease term | 96,629 | (81,629) | 15,000 | 16,207 |
| D. Software | S/L | 2-5 Or 10 | 491,144 | (274,458) | 216,686 | 171,299 |
| E. General Equipment | S/L | 5 or 10 | 1,538,701 | (1,255,894) | 282,807 | 249,930 |
| F. Military Equipment | S/L | Various | 0 | 0 | 0 | 0 |
| G. Assets Under Capital Lease | S/L | lease term | 0 | 0 | 0 | 0 |
| H. Construction-in- Progress | N/A | N/A | 43,685 | N/A | 43,685 | 36,545 |
| I. Other | | | 0 | 0 | 0 | 0 |
| J. Total General PP&E | | | $ 4,036,833 | $ (3,039,948) | $ 996,885 | $ 1,267,070 |

[1] Note 15 for additional information on Capital Leases

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



The amount reported as Leasehold Improvements consists primarily of buildings and related improvements made to facilities at Corpus Christi Army Depot (CCAD). The CCAD, a tenant on a Navy installation, does not maintain a lease with the Navy.

## Assets Under Capital Lease

The AWCF does not have any assets under capital lease.

## Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Intragovernmental Liabilities** | | | | |
| A. Accounts Payable | $ | 0 | $ | 0 |
| B. Debt | | 0 | | 0 |
| C. Other | | 45,410 | | 48,768 |
| **D. Total Intragovernmental Liabilities** | $ | 45,410 | $ | 48,768 |
| **2. Nonfederal Liabilities** | | | | |
| A. Accounts Payable | $ | 0 | $ | 0 |
| B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities | | 243,112 | | 262,499 |
| C. Environmental Liabilities | | 0 | | 0 |
| D. Other Liabilities | | 0 | | 0 |
| **E. Total Nonfederal Liabilities** | $ | 243,112 | $ | 262,499 |
| **3. Total Liabilities Not Covered by Budgetary Resources** | $ | 288,522 | $ | 311,267 |
| **4. Total Liabilities Covered by Budgetary Resources** | $ | 1,534,427 | $ | 1,132,953 |
| **5. Total Liabilities** | $ | 1,822,949 | $ | 1,444,220 |

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

Intragovernmental Other Liabilities represents future funded Federal Employees Compensation Act (FECA) liabilities billed to AWCF by the Department of Labor (DOL). This amount represents amounts paid by the DOL to beneficiaries for which DOL has billed AWCF. The current portion of this bill, $19.5 million, is due in FY 2008 and the remainder is due in the following fiscal years.

Military Retirement Benefits and Other Employment-Related Actuarial Liabilities not covered by budgetary resources is comprised of various employee actuarial liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

## Note 12. Accounts Payable

| As of September 30 | 2007 | | | | | | 2006 | |
|---|---|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Accounts Payable | | Interest, Penalties, and Administrative Fees | | Total | | Total | |
| 1. Intragovernmental Payables | $ | 96,452 | $ | N/A | $ | 96,452 | $ | 78,917 |
| 2. Nonfederal Payables (to the Public) | | 1,023,837 | | 2 | | 1,023,839 | | 576,037 |
| **3. Total** | $ | 1,120,289 | $ | 2 | $ | 1,120,291 | $ | 654,954 |

The AWCF systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue, accounts receivable, and unearned revenue. Accounts payable were adjusted by reclassifying amounts between federal and nonfederal accounts payable.

# Note 13. Debt

Not applicable.

# Note 14. Environmental Liabilities and Disposal Liabilities

Not applicable.

## Environmental Disclosures

Not applicable.

# Note 15. Other Liabilities

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Current Liability | Noncurrent Liability | Total | Total |
| **1. Intragovernmental** | | | | |
| A. Advances from Others | $ 0 | $ 0 | $ 0 | $ 0 |
| B. Deposit Funds and Suspense Account Liabilities | 0 | 0 | 0 | 0 |
| C. Disbursing Officer Cash | 0 | 0 | 0 | 0 |
| D. Judgment Fund Liabilities | 0 | 0 | 0 | 0 |
| E. FECA Reimbursement to the Department of Labor | 19,462 | 25,949 | 45,411 | 48,768 |
| F. Other Liabilities | 9,818 | 0 | 9,818 | 9,382 |
| G. Total Intragovernmental Other Liabilities | $ 29,280 | $ 25,949 | $ 55,229 | $ 58,150 |
| **2. Nonfederal** | | | | |
| A. Accrued Funded Payroll and Benefits | $ 80,675 | $ 0 | $ 80,675 | $ 70,442 |
| B. Advances from Others | 103,101 | 0 | 103,101 | 83,267 |
| C. Deferred Credits | 0 | 0 | 0 | 0 |
| D. Deposit Funds and Suspense Accounts | (895) | 0 | (895) | (898) |
| E. Temporary Early Retirement Authority | 0 | 0 | 0 | 0 |
| F. Nonenvironmental Disposal Liabilities | | | | |
| (1) Military Equipment (Nonnuclear) | 0 | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 0 | 0 | 0 |
| G. Accrued Unfunded Annual Leave | 100,635 | 0 | 100,635 | 100,812 |
| H. Capital Lease Liability | 0 | 0 | 0 | 0 |
| I. Other Liabilities | 89,204 | 31,597 | 120,801 | 214,994 |
| J. Total Nonfederal Other Liabilities | $ 372,720 | $ 31,597 | $ 404,317 | $ 468,617 |
| **3. Total Other Liabilities** | $ 402,000 | $ 57,546 | $ 459,546 | $ 526,767 |

The $895.4 thousand abnormal balance in Nonfederal Deposit Funds and Suspense Accounts is due to differences between the U. S. Treasury and AWCF field reported collections. The majority of this amount is from the Information Services business area that was closed at the end of FY 2003. This abnormal balance will be resolved by the end of FY 2008.

Intragovernmental Other Liabilities consists of employee benefits, including health insurance, life insurance, and retirement payable to the Department of Labor (DOL).

The Nonfederal Other Liabilities consists of contingent liabilities, contract holdbacks, and employer's contribution for employee benefits. This line includes a contingent liability of $25.4 thousand deemed probable.

Contingent Liabilities balance includes $31.6 million in estimated future contract financing payments that will be paid to the contractor upon delivery and Government acceptance. In accordance with contract terms, specific rights to the contractor's work vests with the Government when a specific type of contract financing payments is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as the rights of ownership. The AWCF is under no obligation to pay the contractor for amounts greater than the amounts authorized in the contract until delivery and Government acceptance. Because it is probable that the contractor will complete its efforts and deliver a satisfactory product to the AWCF and the amount of potential future payments is estimable; the AWCF has recognized a contingent liability for estimated future payments, which are conditional pending delivery and Government acceptance.

## Capital Lease Liability

Not applicable.

# Note 16. Commitments and Contingencies

The AWCF is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The AWCF has accrued contingent liabilities for legal actions where the Army's Office of the General 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 Judgment Fund. The AWCF records Judgment Fund liabilities in Note 15, Other Liabilities, and Note 12, Accounts Payable.

**Nature of Contingency**

The FY 2006 Army Legal Representation Letter outlines one claim against AWCF totaling $486.7 million for which the Army Office of General Counsel is unable to express an opinion.

The AWCF has other contingent liabilities in which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army's financial statements nor are reported in the FY 2006 Army Legal Representation Letter. As of September 30, 2007, AWCF has approximately $1.1 million in claims at Army Materiel Command considered reasonably possible. Estimates for litigations, claims and assessments are required to be fully supported. Additionally, the AWCF has coordinated with Army Office of General Counsel to ensure that estimates agree with the legal representation letters and management summary schedule.

**Other Information Pertaining to Commitments**

The AWCF does not have open contracts citing canceled appropriations.

The AWCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, the AWCF does not have a systematic process by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present AWCF contingent liabilities.

Contingencies that are considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further details.

# Note 17. Military Retirement and Other Federal Employment Benefits

| As of September 30 | 2007 | | | | 2006 |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Present Value of Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liability | Present Value of Benefits |
| **1. Pension and Health Actuarial Benefits** | | | | | |
| A. Military Retirement Pensions | $ 0 | | $ 0 | $ 0 | $ 0 |
| B. Military Retirement Health Benefits | 0 | | 0 | 0 | 0 |
| C. Military Medicare-Eligible Retiree Benefits | 0 | | 0 | 0 | 0 |
| D. Total Pension and Health Actuarial Benefits | $ 0 | | $ 0 | $ 0 | $ 0 |
| **2. Other Actuarial Benefits** | | | | | |
| A. FECA | $ 243,112 | 4.93 | $ 0 | $ 243,112 | $ 262,499 |
| B. Voluntary Separation Incentive Programs | 0 | | 0 | 0 | 0 |
| C. DoD Education Benefits Fund | 0 | | 0 | 0 | 0 |
| D. Total Other Actuarial Benefits | $ 243,112 | | $ 0 | $ 243,112 | $ 262,499 |
| **3. Other Federal Employment Benefits** | $ 0 | | $ 0 | $ 0 | $ 0 |
| **4. Total Military Retirement and Other Federal Employment Benefits:** | $ 243,112 | | $ 0 | $ 243,112 | $ 262,499 |

Actuarial Cost Method Used:
Assumptions:
Market Value of Investments in Market-based and Marketable Securities:

### Federal Employees Compensation Act (FECA)

The AWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to AWCF at the end of each fiscal year. The liability includes the estimated 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. The projected annual benefit payments are discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments (COLAs) and consumer price index medical (CPIM) factors are applied to the calculation of projected future benefits.

The liability for future workers' compensation (FWC) 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 benefits payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:



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

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

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

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

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

**Other Disclosures**

The AWCF actuarial liabilities decreased $19.4 million since the previous calculation at the end of FY 2006.

Actuarial liabilities are computed for employee compensation benefits as mandated by the Federal Employment Compensation Act (FECA). The Office of Personnel Management provides updated Army actuarial liabilities during the 4th Quarter of each fiscal year. The AWCF computes its portion of the total Army actuarial liability based on the percentage of AWCF FECA expense to the total Army FECA expense.

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

| Intragovernmental Costs and Exchange Revenue<br>As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| 1. Intragovernmental Costs | $ | 3,231,526 | $ | 450,714 |
| 2. Public Costs | | 12,928,459 | | 15,455,262 |
| **3. Total Costs** | $ | 16,159,985 | $ | 15,905,976 |
| | | | | |
| 4. Intragovernmental Earned Revenue | $ | (12,590,913) | $ | (11,459,046) |
| 5. Public Earned Revenue | | (6,092,010) | | (6,237,998) |
| **6. Total Earned Revenue** | $ | (18,682,923) | $ | (17,697,044) |
| | | | | |
| **7. Net Cost of Operations** | $ | (2,522,938) | $ | (1,791,068) |

Intragovernmental costs and revenue are 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 AWCF systems do not track intragovernmental transactions by customer at the transaction level. Therefore, internal DoD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. Expenses were adjusted by reclassifying amounts between federal and nonfederal expenses.

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

While AWCF activities generally record transactions on an accrual basis, as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Some of the information presented on the Consolidated Statement of Net Cost is based on non-financial feeder systems, including property accountability and logistics systems. The AWCF is in the process of upgrading its financial and logistical feeder systems to the Logistics Modernization Program to address this issue.

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

| As of September 30 | 2007 | | 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| **1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance** | | | | |
| A. Changes in Accounting Standards | $ 0 | $ 0 | $ 0 | $ 0 |
| B. Errors and Omissions in Prior Year Accounting Reports | 0 | 0 | 0 | 0 |
| **C. Total Prior Period Adjustments** | $ 0 | $ 0 | $ 0 | $ 0 |
| **2. Imputed Financing** | | | | |
| A. Civilian CSRS/FERS Retirement | $ 50,900 | $ 0 | $ 53,486 | $ 0 |
| B. Civilian Health | 111,994 | 0 | 103,362 | 0 |
| C. Civilian Life Insurance | 239 | 0 | 226 | 0 |
| D. Judgment Fund | 0 | 0 | 0 | 0 |
| E. IntraEntity | 0 | 0 | 0 | 0 |
| **F. Total Imputed Financing** | $ 163,133 | $ 0 | $ 157,074 | $ 0 |

**Legend:**
CSRS – Civil Service Retirement System
FERS – Federal Employee Retirement System

The line titled Other Financing Sources: Other on the Statement of Net Position represents transfers-in and transfers-out for which trading partners could not be identified. These transactions are recorded as other gains and losses.

## Note 20. Disclosures Related to the Statement of Budgetary Resources

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | $ 9,950,750 | $ 9,001,781 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 0 | 6,374,039 |



This note has been modified to accurately report the remaining available balance of Borrowing and Contract Authority. Previously, the AWCF reported the amount of contract/borrowing authority that had been initially used and subsequently replaced by reimbursement or appropriation.

All AWCF obligations represent reimbursable obligations in apportionment category B. Category B apportionments provide funding for the entire fiscal year without quarterly limitations. Total obligations in FY 2007 were $16.8 billion.

The AWCF does not make eliminating entries in the Statement of Budgetary Resources because the statements are presented as combined and combining.

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

# Note 21. Reconciliation of Net Cost of Operations to Budget

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated: | | |
| 1. Obligations incurred | $ 16,764,820 | $ 14,857,316 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (17,826,926) | (15,341,642) |
| 3. Obligations net of offsetting collections and recoveries | $ (1,062,106) | $ (484,326) |
| 4. Less: Offsetting receipts (-) | 0 | 0 |
| 5. Net obligations | $ (1,062,106) | $ (484,326) |
| Other Resources: | | |
| 6. Donations and forfeitures of property | 0 | 0 |
| 7. Transfers in/out without reimbursement (+/-) | (345,832) | 7 |
| 8. Imputed financing from costs absorbed by others | 163,133 | 157,074 |
| 9. Other (+/-) | (245,300) | (181,999) |
| 10. Net other resources used to finance activities | $ (427,999) | $ (24,918) |
| **11. Total resources used to finance activities** | $ (1,490,105) | $ (509,244) |
| | | |
| **Resources Used to Finance Items not Part of the Net Cost of Operations:** | | |
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | |
| 12a. Undelivered Orders (-) | $ (948,969) | $ 1,113,636 |
| 12b. Unfilled Customer Orders | 1,365,535 | 98,980 |
| 13. Resources that fund expenses recognized in prior Periods (-) | (25,497) | (24,024) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | 0 | 0 |
| 15. Resources that finance the acquisition of assets (-) | (8,180,607) | (8,630,581) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | 0 | 0 |
| 16b. Other (+/-) | 591,131 | 181,989 |
| **17. Total resources used to finance items not part of the Net Cost of Operations** | $ (7,198,407) | $ (7,260,000) |
| **18. Total resources used to finance the Net Cost of Operations** | $ (8,688,512) | $ (7,769,244) |
| | | |
| **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: | | |
| 19. Increase in annual leave liability | $ 2,576 | $ 5,056 |
| 20. Increase in environmental and disposal liability | 0 | 0 |
| 21. Upward/Downward reestimates of credit subsidy expense (+/-) | 0 | 0 |
| 22. Increase in exchange revenue receivable from the public (-) | 0 | 0 |
| 23. Other (+/-) | 25 | 1,515 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | $ 2,601 | $ 6,571 |
| Components not Requiring or Generating Resources: | | |
| 25. Depreciation and amortization | $ 57,291 | $ 31,293 |
| 26. Revaluation of assets or liabilities (+/-) | 1,515,071 | 781,326 |
| 27. Other (+/-) | | |
| 27a. Trust Fund Exchange Revenue | 0 | 5,718,282 |
| 27b. Cost of Goods Sold | 5,249,313 | 3,061 |
| 27c. Operating Material and Supplies Used | 0 | 0 |
| 27d. Other | (658,702) | (559,296) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | $ 6,162,973 | $ 5,971,605 |
| **29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period** | $ 6,165,574 | $ 5,978,176 |
| **30. Net Cost of Operations** | $ (2,522,938) | $ (1,791,068) |

The AWCF budgetary data does not agree with its proprietary expenses and assets capitalized. This results in a difference in net cost between the Statement of Net Cost and the Reconciliation of Net Cost of Operations to Budget. Resources That

Finance the Acquisition of Assets were adjusted by $179.7 million to bring the statements into agreement. The differences between budgetary and proprietary data for AWCF were reported as material weaknesses in the FY 2006 AWCF annual financial statement report.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to interagency budgetary transactions not being eliminated:

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

Other Resources Other consists of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations Other consists mostly of other gains and other losses primarily attributable to differences between intragovernmental transfers-in/out for which trading partners could not be identified.

Components Requiring or Generating Resources in future Period Other consists entirely of a contingent liability of $25.4 thousand deemed probable.

Components not Requiring or Generating Resources Other Other consists of cost capitalization offsets. Due to the reconciliation of interagency expenses and revenues, agencies must first record all direct costs to Operating Expenses and then offset those amounts using the Cost Capitalization Offset account when the costs are capitalized to the appropriate "in-process type" account.

The difference between the Liabilities not Covered by Budgetary Resources on the balance sheet and Components Requiring or Generating Resources in Future Period on the Reconciliation of Net Cost of Operations to Budget is $151.8 thousand. The Total Components of Net Cost of Operations that will require or generate resources in future periods is $22.8 million, which comprises future funded expenses for annual leave and contingent liabilities. These liabilities do not appear in note 11 because the AWCF reports them as covered liabilities. The change in the Total Liabilities Not Covered by Budgetary Resources in note 11 was $22.7 million between FY 2007 and FY 2006. This represents a decrease in the FECA liability, which is reported as Resources that fund expenses recognized in prior periods on the Reconciliation of Net Cost of Operations to Budget.

## Note 22. Disclosures Related to Incidental Custodial Collections

Not applicable.



## Note 23. Earmarked Funds

Not applicable.

## Note 24. Other Disclosures

Not applicable.

## Note 25. Restatements

Not applicable.

*Department of Defense Army Working Capital Fund*

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Working Capital Funds | 2007 Combined | 2006 Combined |
|---|---|---|---|
| **BUDGETARY FINANCING ACCOUNTS** | | | |
| **BUDGETARY RESOURCES** | | | |
| Unobligated balance, brought forward, October 1 | $ 1,791,465 | $ 1,791,465 | $ 1,176,499 |
| Recoveries of prior year unpaid obligations | 1,130,769 | 1,130,769 | 1,372,092 |
| Budget authority | | | |
| Appropriation | 627,854 | 627,854 | 459,521 |
| Borrowing authority | 0 | 0 | 0 |
| Contract authority | 10,715,333 | 10,715,333 | 9,970,837 |
| Spending authority from offsetting collections | | | |
| Earned | | | |
| Collected | 15,227,289 | 15,227,289 | 14,013,375 |
| Change in receivables from Federal sources | 103,334 | 103,333 | (142,805) |
| Change in unfilled customer orders | | | |
| Advance received | 29,395 | 29,395 | 39,953 |
| Without advance from Federal sources | 1,336,140 | 1,336,140 | 59,027 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 |
| Subtotal | $ 28,039,345 | $ 28,039,344 | $ 24,399,908 |
| Nonexpenditure transfers, net, anticipated and actual | (145,700) | (145,700) | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 |
| Permanently not available | (11,534,745) | (11,534,744) | (10,299,718) |
| **Total Budgetary Resources** | $ 19,281,134 | $ 19,281,134 | $ 16,648,781 |
| | | | |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred: | | | |
| Direct | $ 0 | $ 0 | $ 0 |
| Reimbursable | 16,764,820 | 16,764,820 | 14,857,316 |
| Subtotal | $ 16,764,820 | $ 16,764,820 | $ 14,857,316 |
| Unobligated balance: | | | |
| Apportioned | 2,516,314 | 2,516,314 | 1,791,465 |
| Exempt from apportionment | 0 | 0 | 0 |
| Subtotal | $ 2,516,314 | $ 2,516,314 | $ 1,791,465 |
| Unobligated balance not available | 0 | 0 | 0 |
| **Total status of budgetary resources** | $ 19,281,134 | $ 19,281,134 | $ 16,648,781 |
| **Change in Obligated Balance:** | | | |
| Obligated balance, net | | | |
| Unpaid obligations, brought forward, October 1 | $ 9,555,896 | $ 9,555,896 | $ 10,331,509 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (4,097,979) | (4,097,980) | (4,181,756) |
| Total unpaid obligated balance | $ 5,457,917 | $ 5,457,916 | $ 6,149,753 |
| Obligations incurred net (+/-) | $ 16,764,820 | $ 16,764,820 | $ 14,857,316 |
| Less: Gross outlays | (14,335,033) | (14,335,033) | (14,260,837) |
| Obligated balance transferred, net | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | (1,130,769) | (1,130,769) | (1,372,092) |
| Change in uncollected customer payments from Federal sources (+/-) | (1,439,474) | (1,439,473) | 83,777 |
| Obligated balance, net, end of period | | | |
| Unpaid obligations | 10,854,914 | 10,854,914 | 9,555,896 |
| Less: Uncollected customer payments (+/-) from Federal sources (-) | (5,537,453) | (5,537,453) | (4,097,980) |
| Total, unpaid obligated balance, net, end of period | $ 5,317,461 | $ 5,317,461 | $ 5,457,916 |
| **Net Outlays** | | | |
| **Net Outlays:** | | | |
| Gross outlays | 14,335,033 | 14,335,033 | 14,260,837 |
| Less: Offsetting collections | (15,256,684) | (15,256,685) | (14,053,327) |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 |
| **Net Outlays** | $ (921,651) | $ (921,652) | $ 207,510 |

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

Department of Defense Army Working Capital Fund

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Working Capital Funds | 2007 Combined | 2006 Combined |
|---|---|---|---|
| **NON-BUDGETARY FINANCING ACCOUNTS** | | | |
| **BUDGETARY RESOURCES** | | | |
| Unobligated balance, brought forward, October 1 | $ 0 | $ 0 | $ 0 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 |
| Budget authority | | | |
| Appropriation | 0 | 0 | 0 |
| Borrowing authority | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | |
| Earned | | | |
| Collected | 0 | 0 | 0 |
| Change in receivables from Federal sources | 0 | 0 | 0 |
| Change in unfilled customer orders | | | |
| Advance received | 0 | 0 | 0 |
| Without advance from Federal sources | 0 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Nonexpenditure transfers, net, anticipated and actual | 0 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 |
| Permanently not available | 0 | 0 | 0 |
| **Total Budgetary Resources** | $ 0 | $ 0 | $ 0 |
| | | | |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred: | | | |
| Direct | $ 0 | $ 0 | $ 0 |
| Reimbursable | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Unobligated balance: | | | |
| Apportioned | 0 | 0 | 0 |
| Exempt from apportionment | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Unobligated balance not available | 0 | 0 | 0 |
| **Total status of budgetary resources** | $ 0 | $ 0 | $ 0 |
| **Change in Obligated Balance:** | | | |
| Obligated balance, net | | | |
| Unpaid obligations, brought forward, October 1 | $ 0 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | 0 | 0 | 0 |
| Total unpaid obligated balance | $ 0 | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 0 | $ 0 | $ 0 |
| Less: Gross outlays | 0 | 0 | 0 |
| Obligated balance transferred, net | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | 0 | 0 | 0 |
| Change in uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 |
| Obligated balance, net, end of period | | | |
| Unpaid obligations | 0 | 0 | 0 |
| Less: Uncollected customer payments (+/-) from Federal sources (-) | 0 | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 0 | $ 0 | $ 0 |
| **Net Outlays** | | | |
| **Net Outlays:** | | | |
| Gross outlays | 0 | 0 | 0 |
| Less: Offsetting collections | 0 | 0 | 0 |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 |
| **Net Outlays** | $ 0 | $ 0 | $ 0 |

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

## Schedule, Part A DoD Intra-governmental Asset Balances

*AT97 - Army Working Capital Fund ($ in Thousands)*

| | Treasury Index | Fund Balance with Treasury | Accounts Receivable | Loans Receivable | Investments | Other |
|---|---|---|---|---|---|---|
| | 12 | | $7 | | | |
| Department of the Interior | 14 | | $0 | | | |
| Department of Justice | 15 | | $30 | | | |
| Navy General Fund | 17 | | $12,925 | | | |
| Department of State | 19 | | $15 | | | |
| Department of the Treasury | 20 | $2,279,084 | | | | |
| Army General Fund | 21 | | $289,181 | | | |
| General Service Administration | 47 | | $49 | | | |
| Air Force General Fund | 57 | | $5,610 | | | |
| Department of Transportation | 69 | | $456 | | | |
| Homeland Security | 70 | | $12 | | | |
| Department of Health and Human Services | 75 | | $21 | | | |
| National Aeronautics and Space Administration | 80 | | $5 | | | |
| Department of Energy | 89 | | $2 | | | |
| Independent Agencies | 95 | | $158 | | | |
| US Army Corps of Engineers | 96 | | $6 | | | |
| Other Defense Organizations General Funds | 97 | | $3,609 | | | |
| Other Defense Organizations Working Capital Funds | 97-4930 | | $161 | | | $3,002 |
| Air Force Working Capital Fund | 97-4930.003 | | $12,921 | | | |
| **Totals** | | **$2,279,084** | **$325,168** | | | **$3,002** |

## Schedule, Part B DoD Intra-governmental entity liabilities

*AT97 - Army Working Capital Fund ($ in Thousands)*

| | Treasury Index | Accounts Payable | Debts/Borrowings From Other Agencies | Other |
|---|---|---|---|---|
| Department of Labor | 16 | | | $45,411 |
| Navy General Fund | 17 | $756 | | |
| Army General Fund | 21 | $40,520 | | |
| Office of Personnel Management | 24 | | | $9,818 |
| Air Force General Fund | 57 | $31 | | |
| US Army Corps of Engineers | 96 | $2 | | |
| Other Defense Organizations General Funds | 97 | $1,580 | | |
| Other Defense Organizations Working Capital Funds | 97-4930 | $48,007 | | |
| Navy Working Capital Fund | 97-4930.002 | $3,901 | | |
| Air Force Working Capital Fund | 97-4930.003 | $1,657 | | $0 |
| **Totals** | | **$96,454** | | **$55,229** |

## Schedule, Part C DoD Intra-governmental revenue and related costs

*AT97 - Army Working Capital Fund ($ in Thousands)*

| | Treasury Index | Earned Revenue |
|---|---|---|
| Department of Agriculture | 12 | $357 |
| Department of the Interior | 14 | $42 |
| Department of Justice | 15 | $622 |
| Navy General Fund | 17 | $103,873 |
| Department of State | 19 | $66 |
| Army General Fund | 21 | $12,019,587 |
| Office of Personnel Management | 24 | $4 |
| International Trade Commission | 34 | $271 |
| Department of Veterans Affairs | 36 | $13 |
| General Service Administration | 47 | $801 |
| Air Force General Fund | 57 | $73,154 |
| Department of Transportation | 69 | $6,168 |
| Homeland Security | 70 | $3,819 |
| Department of Health and Human Services | 75 | $246 |
| National Aeronautics and Space Administration | 80 | $312 |
| Department of Energy | 89 | $0 |
| Independent Agencies | 95 | $540 |
| US Army Corps of Engineers | 96 | $293 |
| Other Defense Organizations General Funds | 97 | $128,094 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $54,828 |
| Navy Working Capital Fund | 97-4930.002 | $106,550 |
| Air Force Working Capital Fund | 97-4930.003 | $91,273 |
| Military Retirement Fund | 97-8097 | $0 |
| **Totals** | | **$12,590,913** |

## Schedule, Part E DoD Intra-governmental non-exchange revenue

*AT97 - Army Working Capital Fund ($ in Thousands)*

| | Treasury Index | Transfers In | Transfers Out |
|---|---|---|---|
| Navy General Fund | 17 | | $66,000 |
| Army General Fund | 21 | | $384,532 |
| Other Defense Organizations General Funds | 97 | | $41,000 |
| **Totals** | | | **$491,532** |

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

November 9, 2007

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (Report No. D-2008-020)

The Chief Financial Officers Act of 1990, as amended, requires the Department of Defense Inspector General to audit the accompanying Army Working Capital Fund Consolidated Balance Sheet as of September 30, 2007 and 2006, and the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and related notes for the fiscal years then ended.[1] The basic financial statements are the responsibility of Army management. The Army Working Capital Fund is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to express an opinion on the Army Working Capital Fund FY 2007 Financial Statements because of limitations on the scope of our work. Thus, the basic financial statements may be unreliable. In addition to our disclaimer of opinion on the financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the basic financial statements and should be considered in assessing the results of our work.

**Disclaimer of Opinion on the Financial Statements**

The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army Working Capital Fund FY 2007 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (GAAP), and that financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2007. Section 1008(d) of the FY 2002 National Defense Authorization Act limits the Department of Defense Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Therefore, we did not perform auditing procedures required by U.S. Government auditing standards and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," September 4, 2007, to determine whether material amounts on the financial statements were fairly presented. Prior audits have identified, and the Army has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses affect the reliability of certain information contained in the annual financial statements—much of which is taken from the same data sources as the basic financial statements.[2] Therefore, we are unable to express, and we do not express, an opinion on the basic financial statements. Further, the purpose of the audit was not to express an opinion on the Management Discussion and Analysis, Required Supplementary

[1] Beginning in FY 2007, OMB Circular A-136, "Financial Reporting Requirements," June 29, 2007, requires entities to present the Statement of Financing as a note. It is no longer considered a basic statement.

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

Information, Other Accompanying Information, and Performance Measures accompanying the basic financial statements. Accordingly, we express no opinion on that information.

**Summary of Internal Control**

In planning our work, we considered Army Working Capital Fund internal controls 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. However, previously identified internal control weaknesses, all of which are material, continued to exist in the following areas:

- **Financial Management Systems**
- **Inventory**
- **General Property, Plant, and Equipment**
- **Intragovernmental Eliminations**
- **Other Accounting Entries**
- **Statement of Net Cost**
- **Accounts Payable**
- **Reconciliation of Net Cost of Operations to Budget**[3]

A material weakness is a significant deficiency, or a combination of significant deficiencies, resulting in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.[4]

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, adversely affecting the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP. The following are significant deficiencies identified during FY 2007.

- **Abnormal Account Balances**
- **Statement of Budgetary Resources**



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[3] This material weakness originally addressed the Statement of Financing. Since OMB Circular A-136, required entities to present the Statement of Financing as a note to the financial statements and the condition that caused the material weakness continued to exist, we renamed the material weakness to reflect the title of the new note.

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

Our internal control work (conducted as part of prior audits) would not necessarily disclose all significant deficiencies. The Attachment offers additional details on significant deficiencies, most of which we consider to be material internal control weaknesses. The Army reported the material internal control weaknesses in its FY 2007 Annual Statement of Assurance.

**Summary of Compliance with Laws and Regulations**

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited because management acknowledged that instances of noncompliance identified in prior audits continue to exist. The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that Army financial management systems do not substantially comply with Federal financial management system requirements, GAAP, and the U.S. Government Standard General Ledger at the transaction level. Therefore, we did not determine whether the Army Working Capital Fund complied with all applicable laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. 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 GAAP;
- establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We provided a draft of this report to the Office of the Deputy Assistant Secretary of the Army (Financial Operations) who then provided us technical comments, which we incorporated as appropriate. Army officials expressed their continuing commitment to address the problems this report outlines.

Paul J. Granetto

Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing
Service

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. Our purpose was not to, and we do not, express an opinion on internal control over financial reporting. However, we have identified the following material weaknesses that could adversely affect the Army Working Capital Fund financial management operations.

**Previously Identified Material Weaknesses.** Management acknowledged that previously identified significant deficiencies, all of which are material, continue to exist in the following areas.

**Financial Management Systems.** Army Working Capital Fund systems do not meet all of the requirements for full accrual accounting. The systems do not collect and record financial information, as required by GAAP. Financial and non-financial feeder systems do not contain the required system integration to provide an audit trail at the transaction level for the amounts reported in the proprietary and budgetary general ledger account balances. The Army Working Capital Fund derives a majority of its financial information from noncompliant financial systems, such as the Commodity Command Standard System and the Standard Industrial Funds System. The Army has asserted in its FY 2007 Annual Statement of Assurance that the Logistics Modernization Program system was substantially compliant with Federal Financial Management Information Act of 1996 (the Act).

In FY 2003, the Army began the deployment of the Logistics Modernization Program system as its future core accounting system for the Army Working Capital Fund. The Army originally anticipated full implementation of the Logistics Modernization Program system in September 2005. However, implementation problems at the initial field locations and the system's inability to produce auditable outputs and achieve compliance with the Act prevented further implementation of the system. However, continued Logistics Modernization Program system problems and the lack of integration with non-financial feeder systems may adversely affect compliance with the Act. The Government Accountability Office and DoD Office of Inspector General have recently conducted several audits that identified data integrity and system integration problems and questioned whether the Logistics Modernization Program system can correctly record transactions in the U.S. Government Standard General Ledger. For example,

- During FY 2006, we determined that the Logistics Modernization Program system did not have the proper system integration with the DoD disbursement system to permit its internal functionality to match obligations to proposed disbursements before payment, as required by Public Law 108-287. The condition remains uncorrected.

- In FY 2007, the Government Accountability Office determined that the Army had not fully resolved operational difficulties that prevented the Logistics Modernization Program system from properly recording billings and associated revenues to customers within the Industrial Operations activity group.

In addition, the Government Accountability Office reported, and we confirmed, that the Army had not developed the required system integration for the Installation Facilities System to provide accurate real property financial data directly to the Logistics Modernization Program system to populate the standard general ledger accounts. In FY 2008, we plan to evaluate general and application controls and determine the adequacy of audit trails for general ledger account balances within the Logistics Modernization Program system.

**Inventory.** The existing inventory valuation method does not produce an auditable approximation of historical cost. The Army Working Capital Fund uses the latest acquisition cost method of valuing most of its inventory because the Army designed legacy inventory systems for materiel management rather than for accounting in accordance with GAAP. The systems provide accountability and visibility over inventory items, but do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." In addition, the systems are unable to produce financial transactions using the U.S. Government Standard General Ledger accounts and neither the Defense Finance and Accounting Service, Indianapolis Operations (DFAS Indianapolis) nor the Army reconciled all differences between the accounting records and the logistical records. Instead, they accepted the data from the logistical records and adjusted the accounting records by about $4.1 billion.

**General Property, Plant, and Equipment.** The reported value of Army Working Capital Fund General Property, Plant, and Equipment is unreliable because the Army lacked the documentation needed to support the historic acquisition cost of its assets. This condition will continue to exist until the Army establishes and implements a methodology to baseline the acquisition costs of its existing property, plant, and equipment. Also, the Army Working Capital Fund entities sometimes recorded the acquisition date and cost incorrectly or received the incorrect information from the feeder systems. In addition, the Army has not implemented the DoD capitalization threshold for real property assets, and it did not use the Integrated Facilities System to record consistent subsidiary data and calculate depreciation.

**Intragovernmental Eliminations.** DoD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that are not verifiable. DoD and Army Working Capital Fund systems do not capture the trading partner financial data at the transaction level needed to facilitate the reconciliation and elimination of intragovernmental transactions. DoD procedures require that the Army Working Capital Fund adjust its buyer-side transaction data to agree with seller-side transaction data from other Government entities without the entities performing proper reconciliations. As a result, DFAS Indianapolis made $7.5 billion in adjustments to Army Working Capital Fund accounts to force the accounts to agree with the corresponding records of intragovernmental trading partners.

**Other Accounting Entries.** DFAS Indianapolis did not adequately support $7.7 billion in journal vouchers used to prepare the Army Working Capital Fund financial statements. DFAS Indianapolis made the unsupported adjustments to force amounts to agree with other sources of information and records used in preparing the FY 2007 Army Working Capital Fund Financial Statements. In addition, DFAS Indianapolis did not always follow the established minimum requirements for documenting journal vouchers to support adjusting accounting entries made to the general ledger accounts. The resulting unsupported accounting adjustments presented a material uncertainty regarding the line item balances on the FY 2007 Army Working Capital Fund Financial Statements.

**Statement of Net Cost.** The Army Working Capital Fund does not present its Statement of Net Cost by responsibility segments that are consistent with DoD performance goals and measures. The Army Working Capital Fund accounting systems did not accurately capture costs for Army Working Capital Fund programs and properly account for intragovernmental transactions and related eliminations. In addition, the Army Working Capital Fund used budgetary obligation, collection, and disbursement data to present some of the information reported on the Statement of Net Cost.

**Accounts Payable.** DFAS Indianapolis adjusted the accounts payable balances to derive the reported balances. DFAS Indianapolis adjusted Accounts Payable With the Public upward by $116.1 million for undistributed disbursements. Also, DFAS Indianapolis was unable to reconcile the Army Working Capital Fund accounts payable with the corresponding intragovernmental accounts receivable that generated the payables. As a result, DFAS Indianapolis made $140.2 million in unsupported adjustments to decrease intragovernmental accounts payable to force the amounts to agree with Army Working Capital Fund trading partners. In addition, the Supply Management, Army organization does not establish accounts payable in accordance with Statement of Federal Financial Accounting Standards No. 1, "Accounting for Selected Assets and Liabilities," which requires the Army to establish an accounts payable when it accepts title to the goods or services.

**Reconciliation of Net Cost of Operations to Budget.** Statement of Federal Financial Accounting Standards No. 7, "Revenues and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. The Army Working Capital Fund is unable to represent the relationship between budgetary obligations incurred and its Statement of Net Cost accurately without preparing $145 million in unsupported adjustments to the general ledger accounts to force costs to match with obligation information.

**Weaknesses Identified During FY 2007.** During FY 2007, we identified the following significant deficiencies.

**Abnormal Account Balances.** DFAS Indianapolis had not detected, reported, and taken action to eliminate abnormal balances reported by Army Working Capital Fund entities. Army Working Capital Fund entities reported abnormal balances valued at $572.5 million for 50 general ledger accounts. DFAS Indianapolis used the abnormal balances to compute the values reported for asset and liabilities lines on the FY 2007 balance sheet.

**Statement of Budgetary Resources.** The Army Working Capital Fund does not use data from Army Working Capital Fund budgetary general ledger accounts to populate the Statement of Budgetary Resources. Instead, DFAS Indianapolis used budget execution data. OMB Circular No. A-136 states that the Army Working Capital Fund should derive the Statement of Budgetary Resources predominately from the general ledger accounts and not from budget execution data. In FY 2007, DFAS Indianapolis prepared $58.6 million in unsupported adjustments that affect general ledger accounts used in the Statement of Budgetary Resources.

These financial management deficiencies may cause inaccurate management information. As a result, Army management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies.

## Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. We limited our work to determine compliance with selected provisions of the applicable laws and regulations because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Army Working Capital Fund was in compliance with selected provisions of all applicable laws and regulations related to financial reporting. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

**Federal Financial Management Improvement Act of 1996 (the Act).** The Act requires DoD to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For FY 2007, the Army Working Capital Fund did not fully comply with the Act. The Army Working Capital Fund acknowledged that many of its critical financial management and feeder systems did not substantially comply with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2007.

**Government Performance and Results Act of 1993.** Congress enacted the Government Performance and Results Act of 1993 to establish strategic planning and performance measurement in the Federal Government. Strategic plans, annual performance plans, and annual program performance reports comprise the main elements of Government Performance and Results Act of 1993. Although the Army has established a comprehensive strategic plan as a blueprint for achieving auditable financial statements, it is not fully supported by tactical plans to complete the actions needed to meet the milestones. Further, there are no uniform methods or procedures to report percent completion and start and finish dates of tasks, and not all system implementation dates were aligned with milestones in the plan.

**Audit Disclosures**

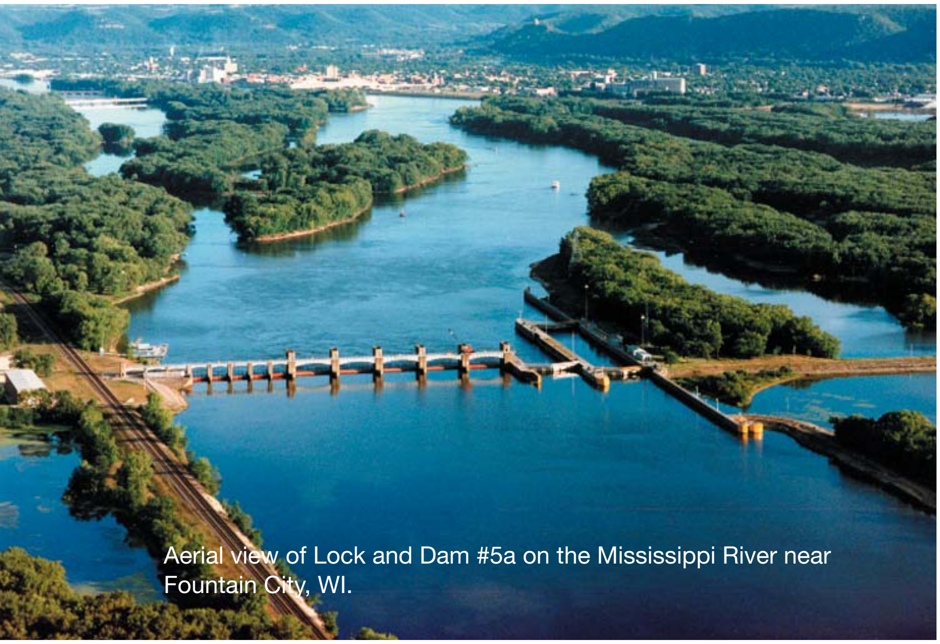
The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us on March 17, 2007, that the Army Working Capital Fund financial management and feeder systems cannot provide adequate evidence supporting various material amounts on the financial statements, and previously identified material weaknesses continue to exist. Therefore, we did not perform detailed testing related to previously identified material weaknesses. In addition, we did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act; Provisions Governing Claims of the United States Government (including provisions of the Debt Collection Improvement Act); Federal Credit Reform Act; Pay and Allowance System for Civilian Employees; Prompt Payment Act and; Improper Payment Act.



This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because either previous audit reports contained recommendations for corrective actions or audit projects currently in process will include appropriate recommendations.

Attachment

*Commitment to Current and Future Readiness*



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

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

# Overview

## Mission

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

## Developing and Managing Water Resources

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

## Protecting, Restoring, and Managing the Environment

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

## Responding and Assisting in Disaster Relief

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

A Lake Michigan harbor entrance.

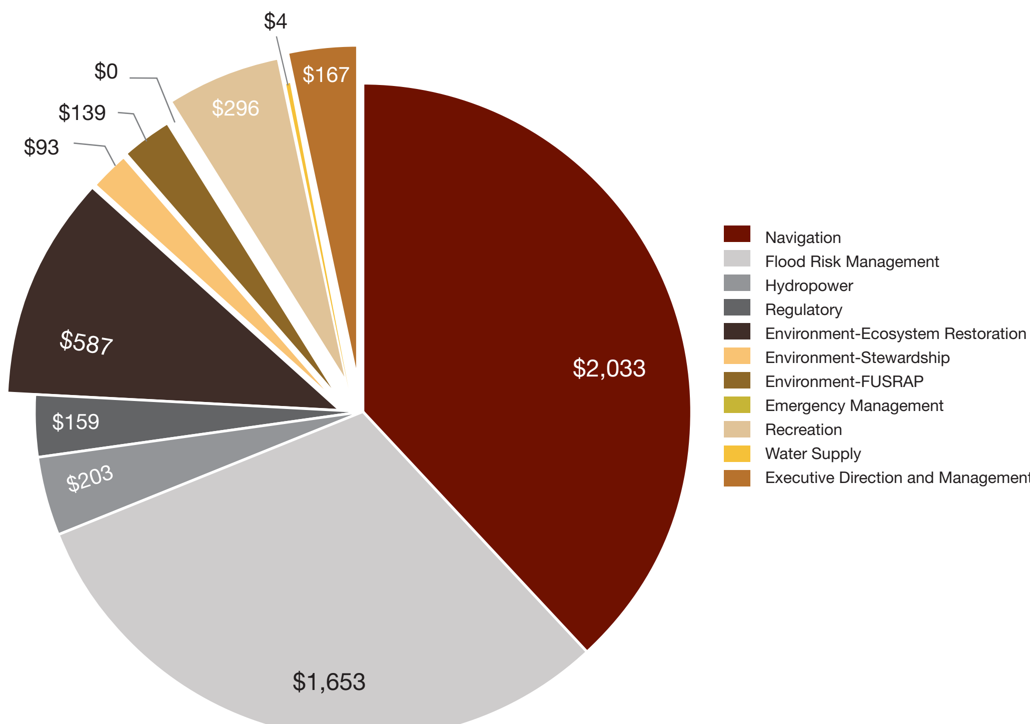
## Providing Engineering Support and Technical Services

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

## Civil Works Programs

The Corps has multiple programs to accomplish its mission. Each program specifically addresses a single mission component, but each may also contribute to one or more of the other programs' missions. Figure 14 lists the programs that receive direct appropriations; furthermore, it shows the funds used for executive direction and management for those programs.

**Figure 12. FY 2007 Civil Works Initial Appropriation by Business Line ($ in Millions)**



## Navigation

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

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

## Flood Risk Management

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

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

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

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

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



## Ecosystem Restoration, Environmental Stewardship and Remedial Actions

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

Vic Fazio Yolo Wildlife Area. Yolo County, CA.

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

## Regulation of Wetlands and Waterways

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

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

## Emergency Management

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

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

In addition to its repair efforts, the Corps began studying ways to improve hurricane protection in the vicinity of Lake Pontchartrain. The Corps' senior leadership commissioned the Hurricane Protection Decision Chronology (HPDC) shortly after Hurricane Katrina struck the Gulf Coast of the United States on August 29, 2005. The Corps' Institute for

Water Resources (IWR) was asked to convene an external HPDC team to collect, record and analyze project memoranda, reports and related documentation in order to describe and explain decision-making for the Lake Pontchartrain & Vicinity Hurricane Protection Project (LP&VHPP). The requested report was to provide an explanation, as opposed to an evaluation, of how the Corps' policies and organization, legislation, financial and other factors influenced the decisions that led to the LP&VHPP protective structures in place when Hurricane Katrina struck the Gulf Coast.

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

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

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

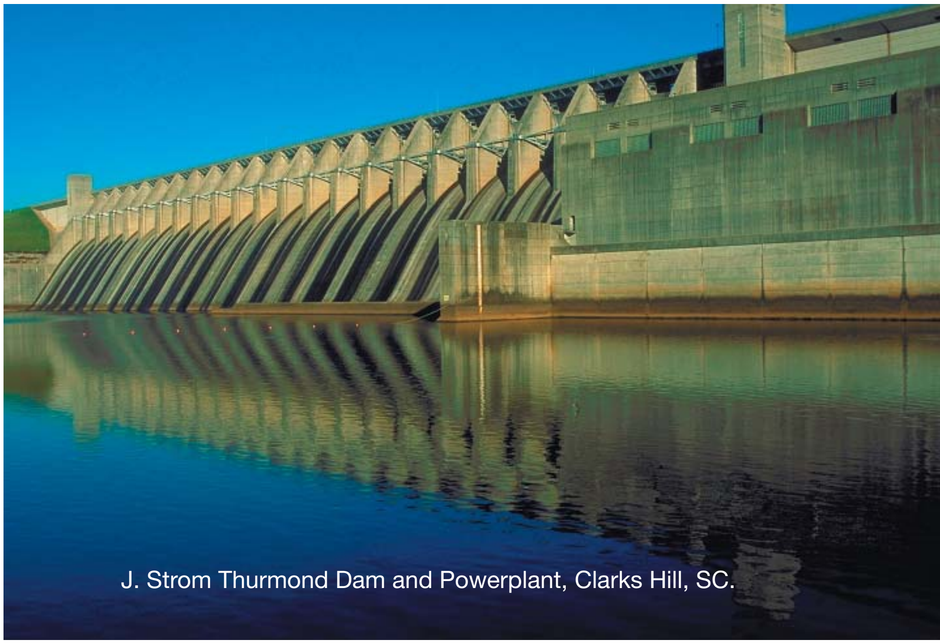
## Hydropower

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

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

## Water Supply

Conscientious management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The Corps has an important role in ensuring that homes, businesses and farms nationwide have enough water



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

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

to meet their needs. The Corps has the authority for water supply as part of projects that serve navigation, flood protection and hydroelectric purposes.

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

### Recreation

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

The Corps administers 4,485 recreation sites at 423 projects on 12 million acres of land. During fiscal year 2006, 10 percent of the U.S. population visited a Corps project at least once. These visitors spent $15 billion pursuing their favorite outdoor recreation activity, supporting some 500,000 full- and part-time jobs.

This $296 million program accounted for over five percent of the civil works budget in FY 2007.

## Organizational Structure

### The Workforce

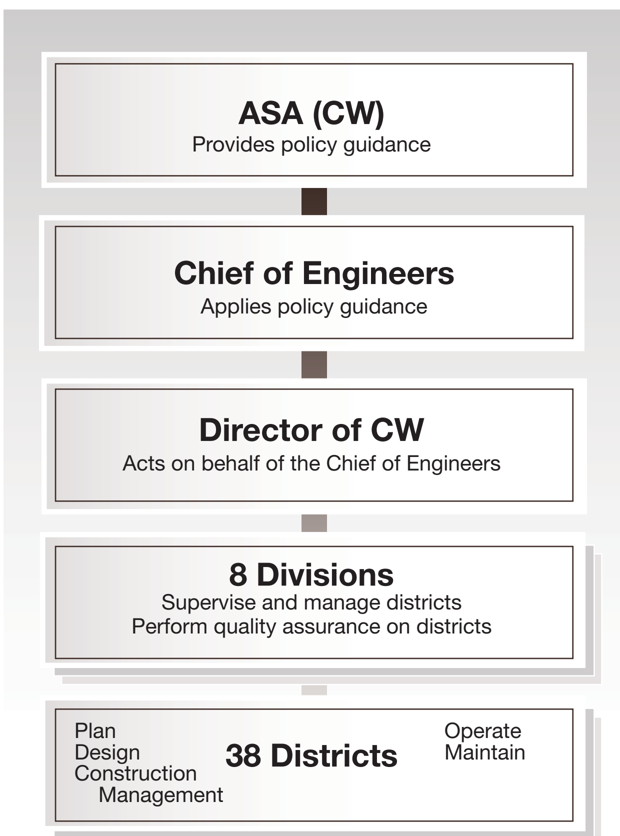
The Corps employs approximately 35,000 people, including 650 military officers and 24,800 civilians, who perform civil works duties. It is funded through the energy and water development appropriation and executes programs through eight regional divisions and 38 of the 41 districts of the Corps of Engineers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

Figure 15 shows the division boundaries. These are defined by watersheds and drainage basins, reflecting the water resources nature of the civil works mission.

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

Figure 13. Civil Works Boundaries


Figure 14. Civil Works Levels of Authority




## The Leadership

Oversight of civil works is provided through four levels of authority. As shown in Figure 16, the Assistant Secretary of the Army for Civil Works (ASA(CW)) is appointed by the President and is responsible for civil works policy. The Chief of Engineers is a military officer who reports to the ASA(CW) and is responsible for mission accomplishment; however, he delegates most of his responsibilities for managing the various programs to the Director of Civil Works. The Chief of Engineers, through the Director of Civil Works, is responsible for the leadership and management of the civil works program and for ensuring that policies established by the ASA(CW) are applied to all phases of the civil works mission. The divisions, commanded by division engineers, are regional offices responsible for the supervision and management of their subordinate districts, including the monitoring and quality assurance of district work. The districts are the foundation of the civil works mission, managing water resource development over a project's life cycle.

# Civil Works Fund Performance Results

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

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

### *Navigation*

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

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

**Performance Result:** The Corps uses the same indicators as in Goal 3; please see Table 18 for the results.

### *Flood Risk Management*

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

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

**Performance Result:** The Corps uses the same indicators as in Goal 3; please see Table 20 for the results.

### *Hydropower*

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

**Performance Indicators:** The availability of hydroelectric generating units, their generatingcapacity and forced outage rates are indicators of the success in meeting thisobjective.

**Performance Result:** The Corps uses the same indicators as in Goal 3; please see Table 22



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

### *Aquatic Ecosystem Restoration*

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

**Funding History:** The first row of Table 15 shows the funding for aquatic ecosystem restoration.

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

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

**Performance Results**

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

Table 15. Aquatic Ecosystem Restoration Indicators

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

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

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



## *Regulatory*

**Objective:** To administer the regulatory program in a manner that protects the aquatic environment (assures zero net-loss of wetlands).

**Funding History:** The first row of Table 16 shows the funding for the Regulatory Program.

**Performance Indicators:** Table 16 also lists eight measures that serve as indicators to assist Corps personnel to determine their progress in meeting this objective.

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

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

**Performance Results**

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



The Corps has begun several initiatives to speed the permit decision process and improve environmental review and documentation. The first initiative is a Lean Six Sigma analysis of the individual permit process, focusing on streamlining and reducing waste. Implementation of the 6 Sigma recommendations from this process will reduce processing times and lead to a more consistent process. Revised procedures will be promulgated nationwide through re-issuance of our regulatory standard operating procedures by December 2007. The second major initiative is to complete, no later than December 2007, the final installation of a nationwide spatial database to track all Corps permits. This database will enable interagency data sharing with permit applicants, interested local governments, the several states, Native American tribes and other federal agencies. The database will also facilitate comprehensive environmental analysis for permits, including

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

cumulative impact analyses. These two initiatives directly support the Corps' efforts to expedite permit review while improving environmental analysis and documentation.

**Table 16. Regulatory Indicators**

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

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

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

**Funding History:** The first row of Table 17 shows the funding for environmental remediation.

**Performance Indicators:** The measures listed in Table 17 serve as indicators to help Corps personnel determine their progress in meeting this objective. In addition to the indicators explained below, the Corps has begun to measure the cumulative percentage of FUSRAP funding that is expended on actual cleanup activities and the total cost of disposing contaminated material.

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

yards. This measure is scheduled to be evaluated at the end of FY 2009.

- Percentage of funding expended on cleanup. Measures the cumulative percentage of FUSRAP funding that is expended on cleanup activities rather than studies.

**Performance Results**

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

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

Table 17. Remedial Action Indicators

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

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

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



### *Navigation*

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

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

**Funding History:** The first row of Table 18 shows the funding for the operation and maintenance of the Navigation

Program. Table 19 shows the funding for the major rehabilitation and construction program.

**Performance Indicators:** To assist the Corps in measuring its progress in meeting the Goal 3 objectives, the Corps uses performance indicators that relate to the operation and maintenance activities for inland waterways and coastal ports and harbors, as well as the efficiency of the overall, combined navigation system. The indicators are described below and their measures are shown in Table 18 and 19.

### *Operation and maintenance of the inland waterways*

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

### *Operation and maintenance of the Coastal Ports and Harbors*

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

### *Efficiency of the navigation system*

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

### *Major rehabilitation and construction of the navigation system*

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



**Performance Results**

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

**Table 18. Navigation Program, Operation and Maintenance Activities Performance Indicators**

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

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

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

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

*Note 4: Measure was revised FY 2007 to account for only mechanical breakdowns of locking systems. Since the measure was revised, a target was not developed for FY 2007. Data provided for FY2004 through 2006 were actual results pulled from existing records.*

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

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

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

**Table 19 Navigation Program Major Rehabilitation and Construction Indicators**

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

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

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

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



### *Flood Risk Management*

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

**Funding History:** The first row of Table 20 shows the funding for flood and coastal storm damage reduction.

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

- **Flood damage prevented.** Measures the estimated annual dollars of property damage avoided through the existence of Corps' flood control projects completed during the fiscal year.
- **Increase in benefits realized.** This is the total percent increase in the present value of total benefits realized from construction work completed in the applicable fiscal year.
- **Ten-year moving average.** The 10-year moving average of actual flood damage reduction benefits attributable to completed projects.
- **Additional people protected.** The percent increase in total affected population with reduced risk at project design attributed to completion of projects in the applicable fiscal year.
- **Operating projects in zones 21-25.** The percentage of operating projects (e.g., dams, levees, channels, flood gates) that are in zones 21-25 of the relative risk ranking matrix.
- **Operating projects in zones 1-6.** The percentage of operating projects (e.g., dams, levees, channels, flood gates) that are in zones 1-6 of the relative risk ranking matrix.
- **Dam safety projects.** The percentage of the dams in the screening portfolio risk assessment (SPRA) that fall in Dam Safety Action Class (DSAC) I, II, or III.
- **Relative loss of life.** The total relative annualized loss of life per dam.
- **DSAC I, II, and III projects.** The number of DSAC I, II and III projects underway or completed during the applicable year.
- **SPRA assessments completed.** The number of SPRA screening level assessments completed in the applicable year.
- **Marginal cost of operations.** The marginal cost of operations and maintenance for all operating projects (e.g., dams, levees, channels, flood gates) relative to damages prevented.

**Performance Results**

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

Table 20. Flood Damage Prevented

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

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

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

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

### *Environmental Stewardship*

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

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

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

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

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



**Funding History:** The first row of Table 21 shows the funding for environmental stewardship.

**Performance Indicators:** To measure success in attaining the objectives shown above, the Corps has developed seven performance indicators. Data on these indicators may be found in Table 21.

- **Mitigation compliance.** This measure demonstrates the Corps' performance in meeting mitigation requirements that are specified in project authorizations. The measure is a percentage of the number of designated Corps-administered mitigation lands (acres) meeting mitigation requirements divided by the total number of designated Corps-administered mitigation lands, or the number of pounds of (or number of individual) fish produced in a mitigation hatchery, divided by the number of fish to be produced at a mitigation hatchery to meet the mitigation requirement.

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

### Performance Results

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

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

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

Table 21. Environmental Stewardship Indicators

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

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

*Note 2: This measure becomes effective in FY 2008.*

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

### *Hydropower*

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

**Funding History:** The first row of Table 22 shows the past three years of capital improvements and operation and maintenance expenditures for the Hydropower Program.

**Performance Indicator:** The objective of the hydropower program is to maintain a high level of reliability and peak availability of hydroelectric power-generating capability at multipurpose reservoir projects. The performance indicators listed below are used by the Corps to measure progress toward attaining this objective. Performance indicator results and targets for the year are shown in Table 22.

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



**Performance Results**

Table 22 shows the significant decrease in appropriations for the program in FY 2007; program performance was affected accordingly. The percent of time hydropower generating units were actually available to produce power declined in FY 2007. During the same period, there was a decline in the percent of time units were available during peak power demand periods. The margin between these two performance indicators has decreased steadily over the same period. As the margin narrows, system maintenance and operating cost increase. The industry standards for availability and peak availability are 98 and 95 percent, respectively. The hydropower program standard metric used for forced outages is 2.0 percent. The table below shows program performance for availability and peak availability to be 14 and 11 percentage points below the industry standard, respectively. The program's forced outage performance is 2.6 percentage points above the standard and 1.2 percentage points above the FY 2007 target.

Table 22. Hydropower Indicators

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

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

## Recreation

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

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

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

**Funding History:** The first row of Table 23 shows the funding for the Recreation Program.

**Performance Indicators:** The measures listed in Table 23 serve as indicators to assist Corps personnel to determine their progress in meeting the Corps' recreation efficiency, service and availability objectives. The indicators are explained below.

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

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

- **Facility condition.** This is the average condition of facilities at Corps-managed recreation areas. The score is based on a seven-point scale where 1 = poor and 7 = excellent.

**Performance Results**

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

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

Table 23. Recreation Indicators

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

*Note 1: Service standards were revised in FY 2005, so FY2004 data are not comparable.*

*Note 2: Surveys were not collected in FY 2004.*

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

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

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



### *Water Supply*

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

**Funding History:** The first row of Table 24 shows the funding for the Water Supply Program.

**Performance Indicator:** To assist in measuring progress toward this objective, the Corps uses measures relating to the acre-feet of water stored and cost recovery measures. These are shown in Table 24.

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

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

**Performance Results**

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

Table 24. Acre-Feed of Water Supply

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

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

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

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

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

**Funding History:** The first row of Table 25 shows the funding for emergency preparedness and response and recovery operations.

**Performance Indicators:** The four primary measures listed in Table 25 are designed to serve as indicators to assist Corps personnel in determining their progress in meeting the Corps' emergency management objectives. The indicators are explained below.

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

**Performance Results**

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



**Table 25. Emergency Preparedness Indicators**

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

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

*Note 2: The funding target for FY2007 was to fund preparedness activities.*

# Possible Future Effects of Existing Conditions

## Flood Risk Management

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

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

## The Marine Transportation System (MTS)

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

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

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

## Environment: Aquatic Ecosystem Restoration

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

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

# Analysis of Financial Statements and Stewardship Information

## Civil Works Balance Sheet

The Army Civil Works Fund balance sheet includes total assets that exceed $44 billion, which is an approximate 2.9 percent increase over FY 2006. Two asset categories – Fund Balance with Treasury and General Property, Plant and Equipment – make up almost 85 percent of total assets, with values of $11.2 billion and $26.7 billion, respectively.

Fund Balance with Treasury increased $3.0 billion (37%). The increase was primarily in the Flood Control and Coastal Emergencies appropriation which is used for hurricane and disaster relief work. The increase in this appropriation is due to a combination of a U.S. Treasury warrant for $1.6 billion and total receipts collected of $2.6 billion. The $2.6 billion included collection of delinquent accounts receivable from the Federal Emergency Management Agency (FEMA). Disbursements of $1.8 billion were made throughout FY 2007 for work performed on disaster relief efforts. The collections and disbursements are for disaster relief efforts related to Hurricanes Katrina, Wilma and Rita by the USACE's New Orleans, Vicksburg and Galveston districts. The Treasury warrant and collections combined with disbursements resulted in an increase in the fund balance of $2.4 billion.

Liabilities are approximately $4.2 billion, comprised primarily of other intragovernmental liabilities, environmental and disposal liabilities, and loan guarantee liabilities, which represent approximately 76.2 percent of the total.

**Figure 15. Select Civil Works Fund Assets and Liabilities**

**Civil Works Fund**

*$ in billions*

| Asset Type | FY 2007 | FY 2006 | Change | Percentage of FY 2007 Assets |
|---|---|---|---|---|
| General Property, Plant and Equipment | $26.7 | $26.8 | $(0.2) | 60% |
| Fund Balance with Treasury (Entitity) | 11.2 | 8.1 | 3.0 | 25% |
| Accounts Receivable | 2.5 | 4.2 | (1.7) | 6% |
| Remaining Assets | 4.2 | 4.1 | 0.0 | 9% |
| Total Assets | $44.5 | $43.3 | $1.2 | 100% |

| Liability Type | FY 2007 | FY 2006 | Change | Percentage of FY 2007 Liabilities |
|---|---|---|---|---|
| Other Liabilities | $2.5 | $2.7 | $(0.2) | 61% |
| Environmental Liabilities | 0.6 | 0.7 | 0.0 | 15% |
| Accounts Payable | 0.7 | 0.5 | 0.2 | 17% |
| Remaining Liabilities | 0.3 | 0.3 | 0.0 | 6% |
| Total Liabilities | $4.2 | $4.2 | $(0.0) | 100% |

*Amounts may not sum due to rounding.*

## Consolidated Statement of Net Costs

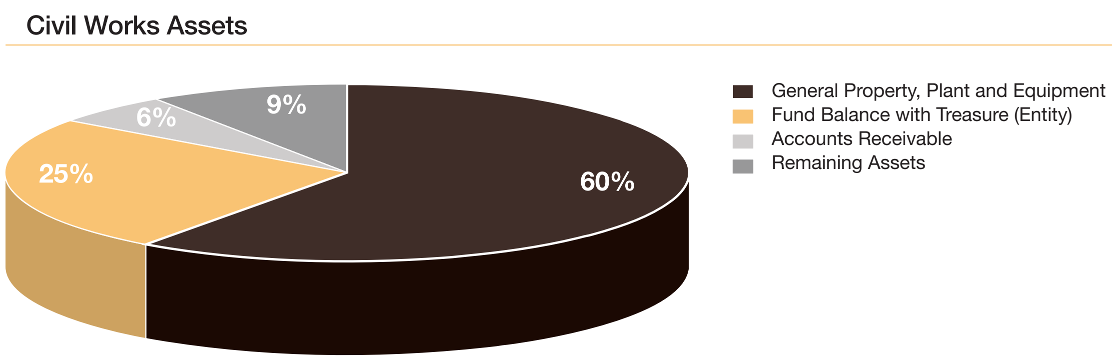
Total Costs decreased $2.0 billion (18%). The decrease was due to completion of projects associated with disaster relief efforts related to Hurricanes Katrina and Rita conducted by the USACE's New Orleans, Vicksburg and Galveston districts. The decrease in costs began during the 1st Quarter, FY 2007 and continued through the 4th Quarter, FY 2007.

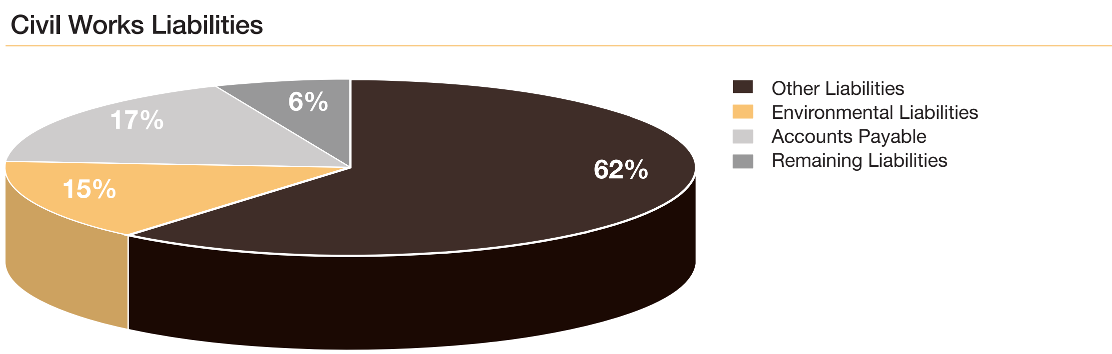
Total Earned Revenue decreased $2.4 billion (46%). The decrease is due to a reduction in reimbursable work performed in support of hurricane relief efforts in the USACE's New Orleans, Vicksburg and Galveston districts. The decrease in earned revenue initially occurred in 1st Quarter, FY 2007 and continued through 4th Quarter, FY 2007.

## Stewardship Information

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

**Figure 16. Select Civil Works Fund Assets and Liabilities**



# Limitations

## *LIMITATIONS OF THE FINANCIAL STATEMENTS*

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

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

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

*Department of Defense - US Army Corps of Engineers*

# CONSOLIDATED BALANCE SHEET

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

| | 2007 Consolidated | 2006 Consolidated |
|---|---|---|
| **ASSETS (Note 2)** | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | | |
| Entity | $ 11,157,876 | $ 8,141,325 |
| Non-Entity Seized Iraqi Cash | 0 | 0 |
| Non-Entity-Other | 7,596 | 6,028 |
| Investments (Note 4) | 4,038,353 | 3,571,456 |
| Accounts Receivable (Note 5) | 873,118 | 2,407,555 |
| Other Assets (Note 6) | 0 | 0 |
| Total Intragovernmental Assets | $ 16,076,943 | $ 14,126,364 |
| Cash and Other Monetary Assets (Note 7) | $ 1,371 | $ 1,310 |
| Accounts Receivable, Net (Note 5) | 1,657,863 | 1,773,773 |
| Loans Receivable (Note 8) | 0 | 0 |
| Inventory and Related Property, Net (Note 9) | 121,704 | 121,340 |
| General Property, Plant and Equipment, Net (Note 10) | 26,671,291 | 26,821,962 |
| Investments (Note 4) | 0 | 0 |
| Other Assets (Note 6) | 494 | 440,839 |
| **TOTAL ASSETS** | $ 44,529,666 | $ 43,285,588 |
| **LIABILITIES (Note 11)** | | |
| Intragovernmental: | | |
| Accounts Payable (Note 12) | $ 131,567 | $ 93,841 |
| Debt (Note 13) | 12,917 | 13,924 |
| Other Liabilities (Note 15 & 16) | 1,887,812 | 1,987,573 |
| Total Intragovernmental Liabilities | $ 2,032,296 | $ 2,095,338 |
| Accounts Payable (Note 12) | $ 594,790 | $ 442,199 |
| Military Retirement and Other Federal Employment Benefits (Note 17) | 251,887 | 250,575 |
| Environmental and Disposal Liabilities (Note 14) | 626,773 | 653,315 |
| Loan Guarantee Liability (Note 8) | 0 | 0 |
| Other Liabilities (Note 15 and Note 16) | 660,946 | 753,399 |
| **TOTAL LIABILITIES** | $ 4,166,692 | $ 4,194,826 |
| **NET POSITION** | | |
| Unexpended Appropriations - Earmarked Funds (Note 23) | $ 0 | $ 0 |
| Unexpended Appropriations - Other Funds | 8,578,322 | 7,443,696 |
| Cumulative Results of Operations - Earmarked Funds | 6,129,552 | 5,588,141 |
| Cumulative Results of Operations - Other Funds | 25,655,100 | 26,058,925 |
| **TOTAL NET POSITION** | $ 40,362,974 | $ 39,090,762 |
| **TOTAL LIABILITIES AND NET POSITION** | $ 44,529,666 | $ 43,285,588 |



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

# CONSOLIDATED STATEMENT OF NET COST

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

| | 2007 Consolidated | 2006 Consolidated |
|---|---|---|
| **Program Costs** | | |
| Gross Costs | $ 9,230,379 | $ 11,196,356 |
| (Less: Earned Revenue) | (2,739,303) | (5,104,928) |
| Net Program Costs | $ 6,491,076 | $ 6,091,428 |
| **Cost Not Assigned to Programs** | 0 | 0 |
| **(Less: Earned Revenue Not Attributable to Programs)** | 0 | 0 |
| **Net Cost of Operations** | $ 6,491,076 | $ 6,091,428 |

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

*Department of Defense - US Army Corps of Engineers*

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2007 Earmarked Funds | 2007 All Other Funds | 2007 Eliminations | 2007 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 5,380,665 | $ 26,266,400 | $ 0 | $ 31,647,065 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | (450,381) | 0 | (450,381) |
| Corrections of errors (+/-) | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 5,380,665 | $ 25,816,019 | $ 0 | $ 31,196,684 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | 4,695,091 | 0 | 4,695,091 |
| Nonexchange revenue | 1,983,572 | (239) | 0 | 1,983,333 |
| Donations and forfeitures of cash and cash equivalents | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement | 16,503 | 111,960 | 0 | 128,463 |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 11,105 | 0 | 11,105 |
| Transfers-in/out without reimbursement (+/-) | 256,145 | (232,606) | 0 | 23,539 |
| Imputed financing from costs absorbed by others | 0 | 239,013 | 1,500 | 237,513 |
| Other (+/-) | 0 | 0 | 0 | 0 |
| **Total Financing Sources** | $ 2,256,220 | $ 4,824,324 | $ 1,500 | $ 7,079,044 |
| **Net Cost of Operations (+/-)** | 1,326,284 | 5,166,292 | 1,500 | 6,491,076 |
| **Net Change** | $ 929,936 | $ (341,968) | $ 0 | $ 587,968 |
| **Cumulative Results of Operations** | $ 6,310,601 | $ 25,474,051 | $ 0 | $ 31,784,652 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 7,443,696 | $ 0 | $ 7,443,696 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | (35,335) | 0 | (35,335) |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 7,408,361 | $ 0 | $ 7,408,361 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 5,865,443 | 0 | 5,865,443 |
| Appropriations transferred-in/out | 0 | (334) | 0 | (334) |
| Other adjustments (rescissions, etc) | 0 | (57) | 0 | (57) |
| Appropriations used | 0 | (4,695,091) | 0 | (4,695,091) |
| **Total Budgetary Financing Sources** | $ 0 | $ 1,169,961 | $ 0 | $ 1,169,961 |
| **Unexpended Appropriations** | 0 | 8,578,322 | 0 | 8,578,322 |
| **Net Position** | $ 6,310,601 | $ 34,052,373 | $ 0 | $ 40,362,974 |



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

# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

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

| | 2006 Earmarked Funds | 2006 All Other Funds | 2006 Eliminations | 2006 Consolidated |
|---|---|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | | | |
| **Beginning Balances** | $ 4,781,544 | $ 26,024,852 | $ 0 | $ 30,806,396 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles (+/-) | 0 | 0 | 0 | 0 |
| Corrections of errors (+/-) | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 4,781,544 | $ 26,024,852 | $ 0 | $ 30,806,396 |
| **Budgetary Financing Sources:** | | | | |
| Other adjustments (rescissions, etc.) | 0 | 0 | 0 | 0 |
| Appropriations used | 0 | 4,516,312 | 0 | 4,516,312 |
| Nonexchange revenue | 1,841,682 | 0 | 0 | 1,841,682 |
| Donations and forfeitures of cash and cash equivalents | 0 | 0 | 0 | 0 |
| Transfers-in/out without reimbursement | 8,362 | 284,043 | 0 | 292,405 |
| Other budgetary financing sources | 0 | 0 | 0 | 0 |
| **Other Financing Sources:** | | | | |
| Donations and forfeitures of property | 0 | 19,888 | 0 | 19,888 |
| Transfers-in/out without reimbursement (+/-) | (135,271) | 135,457 | 0 | 186 |
| Imputed financing from costs absorbed by others | 0 | 261,624 | 0 | 261,624 |
| Other (+/-) | 0 | 0 | 0 | 0 |
| **Total Financing Sources** | $ 1,714,773 | $ 5,217,324 | $ 0 | $ 6,932,097 |
| **Net Cost of Operations (+/-)** | 1,115,652 | 4,975,776 | 0 | 6,091,428 |
| **Net Change** | $ 599,121 | $ 241,548 | $ 0 | $ 840,669 |
| **Cumulative Results of Operations** | $ 5,380,665 | $ 26,266,400 | $ 0 | $ 31,647,065 |
| | | | | |
| **UNEXPENDED APPROPRIATIONS** | | | | |
| **Beginning Balances** | $ 0 | $ 1,005,843 | $ 0 | $ 1,005,843 |
| **Prior Period Adjustments:** | | | | |
| Changes in accounting principles | 0 | 0 | 0 | 0 |
| Corrections of errors | 0 | 0 | 0 | 0 |
| **Beginning balances, as adjusted** | $ 0 | $ 1,005,843 | $ 0 | $ 1,005,843 |
| **Budgetary Financing Sources:** | | | | |
| Appropriations received | 0 | 10,980,882 | 0 | 10,980,882 |
| Appropriations transferred-in/out | 0 | 27,114 | 0 | 27,114 |
| Other adjustments (rescissions, etc) | 0 | (53,831) | 0 | (53,831) |
| Appropriations used | 0 | (4,516,312) | 0 | (4,516,312) |
| **Total Budgetary Financing Sources** | $ 0 | $ 6,437,853 | $ 0 | $ 6,437,853 |
| **Unexpended Appropriations** | 0 | 7,443,696 | 0 | 7,443,696 |
| **Net Position** | $ 5,380,665 | $ 33,710,096 | $ 0 | $ 39,090,761 |

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

*Department of Defense - US Army Corps of Engineers*

# COMBINED STATEMENT OF BUDGETARY RESOURCES

| *As of September 30, 2007 and 2006 ($ in Thousands)* | Budgetary Financing Accounts | | Non-Budgetary Financing Accounts | |
|---|---|---|---|---|
| | 2007 Combined | 2006 Combined | 2007 Combined | 2006 Combined |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated balance, brought forward, October 1 | $ 9,368,272 | $ 5,003,186 | $ 0 | $ 0 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 | 0 |
| Budget authority | | | | |
| Appropriation | 7,503,579 | 12,439,718 | 0 | 0 |
| Borrowing authority | 0 | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | | |
| Earned | | | | |
| Collected | 10,401,273 | 9,407,099 | 0 | 0 |
| Change in receivables from Federal sources | (1,504,481) | 1,690,685 | 0 | 0 |
| Change in unfilled customer orders | | | | |
| Advance received | (4,115) | 22,685 | 0 | 0 |
| Without advance from Federal sources | (780,400) | (719,532) | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 | 0 |
| Subtotal | $ 15,615,856 | 22,840,655 | 0 | 0 |
| Nonexpenditure transfers, net, anticipated and actual | 78,583 | (8,068) | 0 | 0 |
| Temporarily not available pursuant to Public Law | (10,000) | (10,000) | 0 | 0 |
| Permanently not available | (732) | (54,490) | 0 | 0 |
| **Total Budgetary Resources** | $ 25,051,979 | $ 27,771,283 | $ 0 | $ 0 |
| | | | | |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: | | | | |
| Direct | $ 6,924,552 | $ 6,902,331 | $ 0 | $ 0 |
| Reimbursable | 8,479,195 | 11,500,680 | 0 | 0 |
| Subtotal | $ 15,403,747 | $ 18,403,011 | $ 0 | $ 0 |
| Unobligated balance: | | | | |
| Apportioned | 8,742,926 | 8,621,365 | 0 | 0 |
| Exempt from apportionment | 895,064 | 746,850 | 0 | 0 |
| Subtotal | $ 9,637,990 | $ 9,368,215 | $ 0 | $ 0 |
| Unobligated balance not available | 10,242 | 57 | 0 | 0 |
| **Total status of budgetary resources** | $ 25,051,979 | $ 27,771,283 | $ 0 | $ 0 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid obligations, brought forward, October 1 | $ 5,478,111 | $ 3,945,373 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (6,421,138) | (5,449,985) | 0 | 0 |
| Total unpaid obligated balance | $ (943,027) | $ (1,504,612) | $ 0 | $ 0 |
| Obligations incurred net (+/-) | $ 15,403,747 | $ 18,403,011 | $ 0 | $ 0 |
| Less: Gross outlays | (14,836,212) | (16,870,276) | 0 | 0 |
| Obligated balance transferred, net | | | | |
| Actual transfers, unpaid obligations (+/-) | 0 | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources (+/-) | 0 | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | $ 0 | $ 0 | $ 0 | $ 0 |
| Less: Recoveries of prior year unpaid obligations, actual | $ 0 | $ 0 | $ 0 | $ 0 |
| Change in uncollected customer payments from Federal sources (+/- ) | 2,284,881 | (971,153) | 0 | 0 |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 6,045,644 | 5,478,111 | 0 | 0 |
| Less: Uncollected customer payments (+/-) from Federal sources (-) | (4,136,258) | (6,421,138) | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 1,909,386 | (943,027) | 0 | 0 |
| **Net Outlays** | | | | |
| **Net Outlays:** | | | | |
| Gross outlays | $ 14,836,212 | $ 16,870,276 | $ 0 | $ 0 |
| Less: Offsetting collections | (10,397,157) | (9,429,787) | 0 | 0 |
| Less: Distributed Offsetting receipts | (521,925) | (1,906,618) | 0 | 0 |
| **Net Outlays** | $ 3,917,130 | $ 5,533,871 | $ 0 | $ 0 |

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

# Note 1. Significant Accounting Policies

## 1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers (USACE) Civil Works Program, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of USACE in accordance with the Department of Defense (DoD) Financial Management Regulation (FMR), Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and to the extent possible generally accepted accounting principles (GAAP). Effective 4th Quarter, Fiscal Year (FY) 2006, DoD no longer publishes consolidating/combining financial statements. The accompanying financial statements account for all Civil Works resources for which USACE is responsible unless otherwise noted.

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

## 1.B. Mission of the Reporting Entity

The primary missions of USACE include maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies, and making waterways passable. The civil works program 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.C. Appropriations and Funds

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

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

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

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

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

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

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

The USACE is a party to allocation transfers with other federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. 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. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. Exceptions include all U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

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

Additionally, USACE is a party to other allocation transfers as the child for the following funds meeting the OMB exception and all related activity is thus included in the USACE financial statements: South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds.

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

### *Entity Accounts:*

**General Funds**

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

**Revolving Funds**

| | |
|---|---|
| 96X4902 | Revolving Fund |

**Special Funds**

| | |
|---|---|
| 96X5007 | Special Recreation Use Fees |

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

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

**Transfer Funds (reported by the Parent)**
96 12X1105 State and Private Forestry, Forest Service
96 14X1039 Construction, National Park Service
96 14X5035 Land Acquisition and State Assistance, National Park Service
96 14X5573 Permit Processing Fund, Bureau of Land Management
96 46X0200 Appalachian Regional Development Programs, Appalachian Regional Commission
96 69X8083 Federal - Aid Highways (Liquidation of Contract Authorization), Federal Highways Administration
96 89X4045 Bonneville Power Administration Fund, Power Marketing Administration, Department of Energy

## *Nonentity:*
**Deposit Funds**
96X6500 Advances Without Orders from Non-Federal Sources
96X6501 Small Escrow Amounts

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

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

**Obsolete Accounts**

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

## 1.D. Basis of Accounting

For FY 2007, 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. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Budgetary accounting is accomplished through unique general ledger accounts to facilitate compliance with legal and internal control requirements associated with the use of federal funds in accordance with the Treasury Financial Manual.

The CEFMS records transactions based on the U.S. Standard General Ledger (USSGL). The general ledger chart of accounts in CEFMS is compliant with the USSGL. The CEFMS is a fully integrated, automated, and comprehensive financial management system that simplifies the management of all aspects of USACE's business and is being relied upon by the DoDIG for the FY 2006/2007 financial audits. The CEFMS is used at all divisions, districts, centers, laboratories, and field offices.

In addition, DoD identifies program costs based upon the major appropriation groups provided by the Congress. Current processes and systems capture and report accumulated costs for major programs based upon the performance measures as required by the Government Performance and Results Act. The CEFMS includes a cost reporting methodology that meets the need for cost information required by SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government."

## 1.E. Revenues and Other Financing Sources

The USACE receives congressional appropriations as financing sources for general funds on either an annual or multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. 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 USACE's standard policy for goods or services provided as required by OMB Circular A-25, User Charges. The USACE recognizes revenue when earned.

## 1.F. Recognition of Expenses



For financial reporting purposes, USACE's policy requires the recognition of operating expenses in the period incurred. The USACE's financial system collects and records financial information on the full accrual accounting basis. Expenses, such as civilian earned leave, are financed in the period when earned. An exception is sick leave, which is expensed as taken. Accrual adjustments are made for environmental liabilities. The USACE's expenditures for capital and other long-term assets are recognized as operating expenses. In the case of Operating Materials and Supplies (OM&S), operating expenses are recognized when consumed.

## 1.G. Accounting for Intragovernmental Activities

Preparation of reliable financial statements requires the elimination of transactions occurring among entities within DoD or between two or more federal agencies. The USACE is responsible for eliminating transactions between USACE entities.

The U.S. Treasury Financial Management Service is responsible for eliminating transactions between DoD and other federal agencies. The Treasury Financial Manual, Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," and the U.S. Treasury's "Federal Intragovernmental Transactions Accounting Policy Guide" provide guidance for reporting and reconciling intragovernmental balances. While USACE is unable to fully reconcile intragovernmental transactions with all federal partners, USACE is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with OPM.

The USACE implemented policies and procedures related to reconciling intragovernmental assets, liabilities, revenues and expenses for nonfiduciary transactions. Entities whose financial systems are unable to capture and provide complete, pertinent data limit the degree of intragovernmental reconciliation. The USACE is able to fully reconcile with those entities whose financial systems do have the capability to capture and provide all pertinent information needed for accurate intragovernmental reconciliation.

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

Financing for the construction of DoD 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 interest costs to the benefiting agencies.

## 1.H. Transactions with Foreign Governments and International Organizations

The USACE Civil Works Program does not have transactions with foreign governments and/or international organizations.

## 1.I. 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 USACE's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

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

## 1.J. Foreign Currency

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

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

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.

## 1.K. Accounts Receivable

As presented in the Balance Sheet, 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 calculation and financial transaction updates are performed automatically in CEFMS. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at http://www.fms.treas.gov/tfm/vol1/07-03.pdf.

## 1.L. Direct Loans and Loan Guarantees

The USACE does not operate a direct loan and/or loan guarantee program.

## 1.M. Inventories and Related Property

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

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

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

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

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

## 1.O. General Property, Plant and Equipment

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

When it is in the best interest of the government, USACE provides government property to contractors to complete contract work. The USACE either owns or leases such property, and it is reported on the Balance Sheet when it exceeds the capitalization threshold.

## 1.P. Advances and Prepayments

The USACE's policy is to record advances and prepayments in accordance with generally accepted accounting principles (GAAP). As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received.

## 1.Q. Leases

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

## 1.R. Other Assets

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

## 1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. 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.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, and possible claims and assessments. 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.

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

## 1.T. Accrued Leave

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

## 1.U. Net Position

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

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

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses, and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, the cumulative results also include donations and transfers in and out of assets that were not reimbursed.

## 1.V. Treaties for Use of Foreign Bases

The USACE Civil Works Program does not have treaties for use of foreign bases.

## 1.W. Comparative Data

Not applicable.

## 1.X. Unexpended Obligations

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



## 1.Y. Undistributed Disbursements and Collection

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

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable. Unsupported undistributed disbursements are recorded in accounts payable. Unsupported undistributed collections are recorded in other liabilities. The USACE dos not follow this procedure. All undistributed disbursements and collections for USACE are unrecorded Intragovernmental Payment and Collection transactions. These transactions are all federal. The USACE Civil Works Program does not have in-transit payments or collections.

## 1.Z. Significant Events

In accordance with OMB Circular A-136, USACE implemented a new reporting procedure in 1st Quarter, FY 2007, to exclude transfer appropriation accounts for parent/child relationships. The circular requires the parent agency, vice the child, report all financial activity in its financial statements. The USACE has removed the transfer appropriation accounts from its financial statements. This change is reflected as a prior period adjustment equal to the results of operations for the period ending September 30, 2006, for the transfer appropriation accounts.

There has been a significant decrease in accounts receivable with the Federal Emergency Management Agency (FEMA) during FY 2007. The FEMA receivables are associated with disaster relief efforts conducted by USACE New Orleans, Vicksburg, and Galveston districts related to hurricanes Katrina and Rita.

The USACE enhanced its accrual policy guidance to strengthen controls and monitoring of accruals to ensure receipt of all goods and/or services are recorded in the period when incurred.

Beginning 4th Quarter, FY 2007, DoD began presenting the Statement of Financing (SOF) as a note in accordance with OMB Circular A-136. The SOF will no longer be considered a basic statement and is now referred to as "Reconciliation of Net Cost of Operations to Budget."

## 1.AA. Accounts Payable

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

## 1.AB. Liabilities Not Covered by Budgetary Resources

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

# Note 2. Nonentity Assets

| As of September 30 | 2007 | | 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Intragovernmental Assets** | | | | |
| A. Fund Balance with Treasury | $ | 7,596 | $ | 6,028 |
| B. Accounts Receivable | | 3 | | 0 |
| C. Total Intragovernmental Assets | $ | 7,599 | $ | 6,028 |
| **2. Nonfederal Assets** | | | | |
| A. Cash and Other Monetary Assets | $ | 1,371 | $ | 1,310 |
| B. Accounts Receivable | | 1,631,005 | | 1,751,549 |
| C. Other Assets | | 0 | | 0 |
| D. Total Nonfederal Assets | $ | 1,632,376 | $ | 1,752,859 |
| **3. Total Nonentity Assets** | $ | 1,639,975 | $ | 1,758,887 |
| **4. Total Entity Assets** | $ | 42,889,691 | $ | 41,526,701 |
| **5. Total Assets** | $ | 44,529,666 | $ | 43,285,588 |

## Other Information

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

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

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

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

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

# Note 3. Fund Balance with Treasury

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Fund Balances** | | | | |
| A. Appropriated Funds | $ | 9,293,495 | $ | 6,423,985 |
| B. Revolving Funds | | 1,178,590 | | 1,090,769 |
| C. Trust Funds | | 89,257 | | 93,727 |
| D. Special Funds | | 9,172 | | 5,287 |
| E. Other Fund Types | | 594,958 | | 533,585 |
| F. Total Fund Balances | $ | 11,165,472 | $ | 8,147,353 |
| **2. Fund Balances Per Treasury Versus Agency** | | | | |
| A. Fund Balance per Treasury | $ | 11,252,881 | $ | 8,181,330 |
| B. Fund Balance per USACE | | 11,165,472 | | 8,147,353 |
| **3. Reconciling Amount** | $ | 87,409 | $ | 33,977 |

### Reconciling Amount

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

### Other Information

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

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

## Status of Fund Balance with Treasury

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Unobligated Balance** | | | | |
| A. Available | $ | 9,222,919 | $ | 8,970,843 |
| B. Unavailable | | 3,998,871 | | 3,557,277 |
| **2. Obligated Balance not yet Disbursed** | $ | 6,045,645 | $ | 5,478,110 |
| **3. Nonbudgetary FBWT** | $ | 8,481 | $ | 54,953 |
| **4. NonFBWT Budgetary Accounts** | $ | (8,110,444) | $ | (9,913,830) |
| **5. Total** | $ | 11,165,472 | $ | 8,147,353 |

**Definitions**

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

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

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

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

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

**Restricted Unobligated Unavailable Balances**

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

## Disclosures Related to Suspense/Budget Clearing Accounts

| As of September 30 | 2005 | 2006 | 2007 | (Decrease)/ Increase from FY2006 - 2007 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **Account** | | | | |
| F3845 – Personal Property Proceeds | $ 0 | $ 0 | $ 0 | $ 0 |
| F3875 – Budget Clearing Account Suspense | 632 | 855 | 1,142 | 287 |
| F3880 – Lost or Cancelled Treasury Checks | 0 | (168) | 0 | 168 |
| F3882 – Uniformed Services Thrift Savings Plan Suspense | 0 | 0 | 0 | 0 |
| F3885 – Interfund/IPAC Suspense | (12,215) | (591) | (258) | 333 |
| F3886 – Thrift Savings Plan Suspense | 0 | 0 | 0 | 0 |
| **Total** | $ (11,583) | $ 96 | $ 884 | $ 788 |



**Abnormalities**

The Interfund/IPAC Suspense has an abnormal balance of ($258.0) thousand due to unrecorded IPAC net disbursements for multiple USACE districts. These are distributed to the appropriate funds the following month.

**Other Information**

The F3875 suspense clearing account represents the Disbursing Officer's suspense. Suspense clearing account F3885 represents the Interfund/IPAC suspense. These two suspense accounts temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation.

The F3880 suspense clearing account represents the balance of U. S. Treasury checks that: (1) have either been lost by the payee and need to be reissued, (2) have never been cashed by the payee, or (3) have been cancelled by the U.S. Treasury and need to be transferred to the original appropriation.

The USACE Civil Works Program does not use the following suspense clearing accounts: F3845 -Personal Property Processed, F3882 - Uniformed Services Thrift Savings Plan Suspense, or F3886 - Thrift Savings Plan Suspense.

## Disclosures Related to Problem Disbursements

Not Applicable.

# Note 4. Investments and Related Interest

| As of September 30<br>*(Amounts in thousands)* | 2007<br>Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| **1. Intragovernmental Securities** | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | $ 0 | | $ 0 | $ 0 | $ 0 |
| 2. Medicare Eligible Retiree Health Care Fund | 0 | | 0 | 0 | 0 |
| 3. US Army Corps of Engineers | 4,058,474 | Level Yield Calculation | (44,129) | 4,014,345 | 4,043,109 |
| 4. Other Funds | 0 | | 0 | 0 | 0 |
| 5. Total Nonmarketable, Market-Based | 4,058,474 | | (44,129) | 4,014,345 | 4,043,109 |
| B. Accrued Interest | 24,008 | | | 24,008 | 24,008 |
| C. Total Intragovernmental Securities | $ 4,082,482 | | $ (44,129) | $ 4,038,353 | $ 4,067,117 |
| **2. Other Investments** | | | | | |
| A. Total Other Investments | $ 0 | | $ 0 | $ 0 | N/A |

| As of September 30<br>*(Amounts in thousands)* | 2006<br>Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|
| **3. Intragovernmental Securities** | | | | | |
| A. Nonmarketable, Market-Based | | | | | |
| 1. Military Retirement Fund | $ 0 | | $ 0 | $ 0 | $ 0 |
| 2. Medicare Eligible Retiree Health Care Fund | 0 | | 0 | 0 | 0 |
| 3. US Army Corps of Engineers | 3,632,883 | Level Yield Calculation | (81,320) | 3,551,563 | 3,519,489 |
| 4. Other Funds | 0 | | 0 | 0 | 0 |
| 5. Total Nonmarketable, Market-Based | 3,632,883 | | (81,320) | 3,551,563 | 3,519,489 |
| B. Accrued Interest | 19,893 | | | 19,893 | 19,893 |
| C. Total Intragovernmental Securities | $ 3,652,776 | | $ (81,320) | $ 3,571,456 | $ 3,539,382 |
| **4. Other Investments** | | | | | |
| A. Total Other Investments | $ 0 | | $ 0 | $ 0 | N/A |

### Other Information

The Federal Government does not set aside assets to pay future benefits and expenditures associated with earmarked funds. The cash generated from earmarked funds are deposited in the U.S. Treasury, which uses the cash for general government purposes. The U.S. Treasury securities are issued to the earmarked funds as evidence of earmarked fund receipts. The U.S. Treasury securities are an asset to USACE and a liability to the U.S. Treasury. Because 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. The U.S. Treasury securities provide USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When USACE requires redemption of these securities, the government finances the securities 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 investments among the trust funds is as follows: $3.7 billion in the Harbor Maintenance Trust Fund, $204.1 million in the Inland Waterways Trust Fund, and $102.5 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

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

# Note 5. Accounts Receivable

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net | Accounts Receivable, Net |
| **1. Intragovernmental Receivables** | $ 873,118 | N/A | 873,118 | $ 2,407,555 |
| | | | $ | |
| **2. Nonfederal Receivables (From the Public)** | $ 1,663,797 | $ (5,934) | $ 1,657,863 | $ 1,773,773 |
| **3. Total Accounts Receivable** | $ 2,536,915 | $ (5,934) | $ 2,530,981 | $ 4,181,328 |

### Other Information

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 calculation and financial transaction updates are performed automatically in the Corps of Engineers Financial Management System. The Department of Defense does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between agencies using the Intragovernmental Business Rules published in the Treasury Financial Manual at *http://www.fms.treas.gov/tfm/vol1/07-03.pdf.*

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

## Aged Accounts Receivable

| As of September 30 | 2007 | | 4th Quarter 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Intragovernmental | Nonfederal | Intragovernmental | Nonfederal |
| CATEGORY | | | | |
| **Nondelinquent** | | | | |
| Current | $ 854,294 | $ 69,364 | $ 739,757 | $ 71,567 |
| Noncurrent | 0 | 1,468,864 | 0 | 1,621,941 |
| **Delinquent** | | | | |
| 1 to 30 days | $ 2,544 | $ 2,370 | $ 181,164 | $ 2,931 |
| 31 to 60 days | 1,890 | 94,088 | 169,359 | 282 |
| 61 to 90 days | 11 | 2,485 | 11 | 147 |
| 91 to 180 days | 21,304 | 272 | 604,648 | 334 |
| 181 days to 1 year | 8,555 | 1,594 | 718,231 | 15,529 |
| Greater than 1 year and less than or equal to 2 years | 16,880 | 1,830 | 1,970 | 15,857 |
| Greater than 2 years and less than or equal to 6 years | 3,357 | 6,528 | 4,496 | 43,380 |
| Greater than 6 years and less than or equal to 10 years | 6 | 11,790 | 11 | 7,889 |
| Greater than 10 years | 0 | 4,612 | 0 | 0 |
| **Subtotal** | $ 908,841 | $ 1,663,797 | $ 2,419,647 | $ 1,779,857 |
| Less Supported Undistributed Collections | 0 | 0 | 0 | 0 |
| Less Eliminations | (35,723) | 0 | (12,092) | 0 |
| Less Other | 0 | 0 | 0 | 0 |
| **Total** | $ 873,118 | $ 1,663,797 | $ 2,407,555 | $ 1,779,857 |

### Nondelinquent Noncurrent Nonfederal Receivables (From the Public)

The $1.5 billion in nondelinquent noncurrent nonfederal receivables consists of amounts due from state and local municipalities for long-term water storage contracts.

### Delinquent Intragovernmental Receivables

The total delinquent intragovernmental accounts receivable is $54.5 million. Of this amount, $44.6 million is due from the Federal Emergency Management Agency (FEMA), predominately for receivables associated with disaster relief efforts conducted by USACE New Orleans and Vicksburg districts for hurricanes Katrina and Rita. In FY 2007 and prior, FEMA required extensive supporting documentation before paying these disaster bills. This requirement for support is labor intensive, and obtaining support from other federal agencies is difficult, therefore, causing a delay in the payment by FEMA. The USACE has reduced its FEMA receivables by $1.6 billion since 4th Quarter, FY 2006. The USACE has entered into a new agreement with FEMA to process collections for disaster relief accounts receivable on a current basis using U.S. Treasury Intragovernmental Payment and Collection system. Effective in FY 2008, the USACE will no longer be required to provide supporting documentation before collection can be accomplished. Supporting documentation will be provided to FEMA following the collection. The USACE also has delinquent receivables from the Coast Guard and Environmental Protection Agency (EPA) totaling $7.4 million. These receivables are primarily for work being conducted under the Oil Pollution Act of 1990. The Coast Guard and EPA require extensive supporting documentation before paying these bills. The USACE continues to work with EPA and the Coast Guard to resolve their delinquent receivables and will continue to provide detailed billing information.

### Delinquent Nonfederal Receivables (From the Public)

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

## Note 6. Other Assets

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Intragovernmental Other Assets** | | | | |
| A. Advances and Prepayments | $ | 0 | $ | 0 |
| B. Other Assets | | 0 | | 0 |
| C. Total Intragovernmental Other Assets | $ | 0 | $ | 0 |
| **2. Nonfederal Other Assets** | | | | |
| A. Outstanding Contract Financing Payments | $ | 0 | $ | 0 |
| B. Other Assets (With the Public) | | 494 | | 440,839 |
| C. Total Nonfederal Other Assets | $ | 494 | $ | 440,839 |
| **3. Total Other Assets** | $ | 494 | $ | 440,839 |

### Other Information

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

## Note 7. Cash and Other Monetary Assets

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| **1. Cash** | $ | 52 | $ | 497 |
| **2. Foreign Currency** | | 1,319 | | 813 |
| **3. Other Monetary Assets** | | 0 | | 0 |
| **4. Total Cash, Foreign Currency, & Other Monetary Assets** | $ | 1,371 | $ | 1,310 |

### Other Information

Cash consists of $48.0 thousand held in the Disbursing Officer's Accountability for previously issued travel advances and $4.0 thousand in change funds for recreation cashiers. Foreign currency consists of Japanese yen, Euro dollars and Korean won to process disbursement transactions at Japan, Europe, and Far-East districts. Cash is a nonentity asset and is considered a restricted asset that is held by USACE but not available for use in its operations.



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 acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. There are no significant effects from changes in the foreign currency exchange rate. Foreign currency is a nonentity asset and is considered a restricted asset.

## Note 8. Direct Loan and/or Loan Guarantee Programs

Not Applicable.

### Summary of Direct Loans and Loan Guarantees

Not Applicable.

## Direct Loans Obligated

Not Applicable.

## Total Amount of Direct Loans Disbursed

Not Applicable.

## Subsidy Expense for Post FY 1991 Direct Loan

Not Applicable.

## Subsidy Rate for Direct Loans by Program

Not Applicable.

## Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans

Not Applicable.

## Defaulted Guaranteed Loans

Not Applicable.

## Guaranteed Loans Outstanding

Not Applicable.

## Liabilities for Post FY 1991 Loan Guarantees, Present Value

Not Applicable.

## Subsidy Expense for Loan Guarantees by Program

Not Applicable.



## Subsidy Rates for Loan Guarantees by Program

Not Applicable.

## Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees

Not Applicable.

## Administrative Expenses

Not Applicable.

# Note 9. Inventory and Related Property

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| 1. Inventory, Net | $ 15,586 | $ 24,259 |
| 2. Operating Materials & Supplies, Net | 106,118 | 97,081 |
| 3. Stockpile Materials, Net | 0 | 0 |
| **4. Total** | $ 121,704 | $ 121,340 |

## Inventory, Net

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | Inventory, Net | Valuation Method |
| **1. Inventory Categories** | | | | | |
| A. Available and Purchased for Resale | $ 0 | $ 0 | $ 0 | $ 0 | MAC |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 0 | 0 | 0 | 0 | |
| D. Raw Materials | 0 | 0 | 0 | 0 | |
| E. Work in Process | 15,586 | 0 | 15,586 | 24,259 | MAC |
| **F. Total** | $ 15,586 | $ 0 | $ 15,586 | $ 24,259 | |

**Legend for Valuation Methods:**
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value
SP = Standard Price
O = Other
AC = Actual Cost
MAC = Moving Average Cost

### Restrictions of Inventory Use, Sale, or Disposition

There are no restrictions on the use, sale or disposition of Work in Process (WIP) inventory.

### Other Information

The general composition of the USACE WIP inventory is tangible personal property that is in the process of production. The WIP includes associated labor, applied overhead, and supplies used in the delivery of services. The inventory valuation method is based on a moving weighted average based on actual cost divided by quantity. A perpetual record of inventory is maintained to allow for recomputation of the average unit cost as new receipts are recorded.

The inventory data reported on the financial statements is derived from the Corps of Engineers Financial Management System (CEFMS). The CEFMS is a comprehensive system that is designed to capture and maintain historical cost data necessary to fully comply with the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."

## Operating Materials and Supplies, Net

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | OM&S Gross Value | Revaluation Allowance | OM&S, Net | OM&S, Net | Valuation Method |
| **1. OM&S Categories** | | | | | |
| A. Held for Use | $ 106,133 | $ (15) | $ 106,118 | $ 97,081 | NRV |
| B. Held for Repair | 0 | 0 | 0 | 0 | |
| C. Excess, Obsolete, and Unserviceable | 0 | 0 | 0 | 0 | |
| **D. Total** | $ 106,133 | $ (15) | $ 106,118 | $ 97,081 | |

**Legend for Valuation Methods:**
Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
NRV = Net Realizable Value
SP = Standard Price
O = Other
AC = Actual Cost
MAC = Moving Average Cost

### Restrictions of Inventory Use, Sale, or Disposition

There are no restrictions on the use of Operating Materials and Supplies (OM&S).

### Other Information

The general composition of USACE OM&S is 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 metered mail. The valuation method is based on net realizable value. The relevant cost associated with maintaining the available operating materials and supplies, as well as the time required to replenish the operating materials and supplies, are the criteria used in determining the assigned category.

## Stockpile Materials, Net

Not Applicable.

# Note 10. General PP&E, Net

| As of September 30 | 2007 | | | | | 2006 |
|---|---|---|---|---|---|---|
| *(Amounts in thousands)* | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value | Prior FY Net Book Value |
| **1. Major Asset Classes** | | | | | | |
| A. Land | N/A | N/A | $ 8,895,929 | N/A | $ 8,895,929 | $ 8,914,787 |
| B. Buildings, Structures, and Facilities | S/L | 20 - 100 | 27,940,486 | $ (13,433,975) | 14,506,511 | 14,327,074 |
| C. Leasehold Improvements | S/L | lease term | 38,442 | (28,634) | 9,808 | 13,400 |
| D. Software | S/L | 2-5 Or 10 | 84,093 | (67,099) | 16,994 | 25,496 |
| E. General Equipment | S/L | May-50 | 1,372,669 | (689,859) | 682,810 | 658,023 |
| F. Military Equipment | S/L | Various | 0 | 0 | 0 | 0 |
| G. Assets Under Capital Lease | S/L | lease term | 0 | 0 | 0 | 0 |
| H. Construction-in- Progress | N/A | N/A | 2,531,732 | N/A | 2,531,732 | 2,849,493 |
| I. Other | | | 27,508 | (1) | 27,507 | 33,689 |
| J. Total General PP&E | | | $ 40,890,859 | $ (14,219,568) | $ 26,671,291 | $ 26,821,962 |

[1] Note 15 for additional information on Capital Leases

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

## General PP&E

In accordance with Office of Management and Budget Circular A-136, Financial Reporting Requirements, USACE implemented a new reporting procedure in 1st Quarter, FY 2007, to exclude transfer appropriation accounts for parent/child relationships. The circular requires the parent agency, vice the child, report all financial activity in its financial statements. The USACE has removed the transfer appropriation accounts from its financial statements. This resulted in a decrease of $395.5 million in USACE's Property, Plant, and Equipment (PP&E), which includes: $40.3 million in land and land rights; $196.3 million in construction-in-progress (CIP); $5.3 million in buildings, improvements, and renovations; $152.0 million in other structures and facilities; and $1.6 million in equipment.

The service life for USACE's multiple purpose project assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up $7.6 billion of the book value of USACE's PP&E. The USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24% of America's hydroelectric power. All power generated by these hydroelectric power plants is transmitted to four Power Marketing Administrations for distribution to power companies across the United States.

In USACE's FY 2007 CIP account, $151.0 million of the $2.5 billion (6%) is attributable to a dormant project formally known as the "Elk Creek Lake Project" located at USACE Portland district. The project, which was authorized by the 1962 Flood Control Act, was originally authorized for the purpose of flood control. In 1971, construction began on the project but after completing only 33% of its design height, the project was shut down due to a court-ordered injunction. Additional analysis under the National Environmental Policy Act is required to remove the injunction. To date, the environmental concerns have not been resolved and the project is in a hold status until such time these issues are resolved. Therefore, USACE will continue to carry the construction costs of the "Elk Creek Lake Project" in the CIP account until a final decision is made concerning the outcome of the project.



The USACE civil works program has $126.5 million in General PP&E outside the continental U.S. in the Pacific Ocean division. There are no restrictions on the use or convertibility of this PP&E.

Other consists of assets awaiting disposal.

**Heritage Assets and Stewardship Land**

Heritage assets are not material to the mission of USACE.

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

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

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

The USACE acquired no heritage assets during FY 2007.

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

## Assets Under Capital Lease

Not Applicable.

# Note 11. Liabilities Not Covered by Budgetary Resources

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **1. Intragovernmental Liabilities** | | |
| A. Accounts Payable | $ 0 | $ 0 |
| B. Debt | 12,917 | 13,592 |
| C. Other | 1,844,756 | 1,961,767 |
| **D. Total Intragovernmental Liabilities** | $ 1,857,673 | $ 1,975,359 |
| | | |
| **2. Nonfederal Liabilities** | | |
| A. Accounts Payable | $ 0 | $ 0 |
| B. Military Retirement and Other Federal Employment Benefits | 251,584 | 250,272 |
| C. Environmental Liabilities | 626,773 | 653,315 |
| D. Other Liabilities | 61,000 | 77,275 |
| **E. Total Nonfederal Liabilities** | $ 939,357 | $ 980,862 |
| | | |
| **3. Total Liabilities Not Covered by Budgetary Resources** | $ 2,797,030 | $ 2,956,221 |
| | | |
| **4. Total Liabilities Covered by Budgetary Resources** | $ 1,369,662 | $ 1,238,605 |
| | | |
| **5. Total Liabilities** | $ 4,166,692 | $ 4,194,826 |

## Other Information

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

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

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

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

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

Nonfederal Liabilities – Other Liabilities include contingent liability for probable losses related to lawsuits filed by the state of Nebraska and the county of Knox, Nebraska, and contingent liability based on percentage of tort, litigation and contract dispute claims. Contingent liabilities may be funded in future appropriations.

# Note 12. Accounts Payable

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Accounts Payable | Interest, Penalties, and Administrative Fees | Total | Total |
| 1. Intragovernmental Payables | $ 131,567 | $ N/A | $ 131,567 | $ 93,841 |
| 2. Nonfederal Payables (to the Public) | 594,790 | 0 | 594,790 | 442,199 |
| **3. Total** | $ 726,357 | $ 0 | $ 726,357 | $ 536,040 |

### Other Information

Intragovernmental Payables consist of amounts owed to other federal agencies for goods or services ordered and received, but not yet paid. Interest, penalties, and administrative fees are not applicable to intragovernmental payables.

*The USACE has no known delinquent accounts payable; therefore, no amount is reported for interest, penalties, and administrative fees.*

# Note 13. Debt

| As of September 30 | 2007 | | | 2006 | |
|---|---|---|---|---|---|
| *(Amounts in thousands)* | Beginning Balance | Net Borrowing | Ending Balance | Net Borrowing | Ending Balance |
| **1. Agency Debt (Intragovernmental)** | | | | | |
| A. Debt to the Treasury | $ 13,924 | $ (1,007) | $ 12,917 | $ (676) | $ 13,924 |
| B. Debt to the Federal Financing Bank | 0 | 0 | 0 | 0 | 0 |
| C. Total Agency Debt | $ 13,924 | $ (1,007) | $ 12,917 | $ (676) | $ 13,924 |
| **2. Total Debt** | $ 13,924 | $ (1,007) | $ 12,917 | $ (676) | $ 13,924 |

### Other Information

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

| **Debt Balance** | *(Amount in millions)* |
|---|---|
| Withdrawals from U.S. Treasury | $74.9 |
| Cumulative principal repayments | ($62.0) |
| Balance of debt as of September 30, 2007 | $12.9 |

# Note 14. Environmental Liabilities and Disposal Liabilities

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Current Liability | Noncurrent Liability | Total | Total |
| **1. Environmental Liabilities--Nonfederal** | | | | |
| A. Accrued Environmental Restoration Liabilities | | | | |
| 1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) | $ 0 | $ 0 | $ 0 | $ 0 |
| 2. Active Installations—Military Munitions Response Program (MMRP) | 0 | 0 | 0 | 0 |
| 3. Formerly Used Defense Sites—IRP and BD/DR | 0 | 0 | 0 | 0 |
| 4. Formerly Used Defense Sites--MMRP | 0 | 0 | 0 | 0 |
| B. Other Accrued Environmental Liabilities—Active Installations | | | | |
| 1. Environmental Corrective Action | 0 | 0 | 0 | 0 |
| 2. Environmental Closure Requirements | 0 | 0 | 0 | 0 |
| 3. Environmental Response at Operational Ranges | 0 | 0 | 0 | 0 |
| 4. Other | 139,781 | 486,992 | 626,773 | 653,315 |
| C. Base Realignment and Closure (BRAC) | | | | |
| 1. Installation Restoration Program | 0 | 0 | 0 | 0 |
| 2. Military Munitions Response Program | 0 | 0 | 0 | 0 |
| 3. Environmental Corrective Action / Closure Requirements | 0 | 0 | 0 | 0 |
| 4. Other | 0 | 0 | 0 | 0 |
| D. Environmental Disposal for Weapons Systems Programs | | | | |
| 1. Nuclear Powered Aircraft Carriers | 0 | 0 | 0 | 0 |
| 2. Nuclear Powered Submarines | 0 | 0 | 0 | 0 |
| 3. Other Nuclear Powered Ships | 0 | 0 | 0 | 0 |
| 4. Other National Defense Weapons Systems | 0 | 0 | 0 | 0 |
| 5. Chemical Weapons Disposal Program | 0 | 0 | 0 | 0 |
| 6. Other | 0 | 0 | 0 | 0 |
| **2. Total Environmental Liabilities** | $ 139,781 | $ 486,992 | $ 626,773 | $ 653,315 |

| Others Category Disclosure Comparative Table | | |
|---|---|---|
| *(Amounts in thousands)* | **(Current FY)** | **(Prior FY)** |
| Other Accrued Environmental Active Installations-Other | | |
| Formerly Utilized Sites Remedial Action Program, which was established to respond to radiological contamination from early U.S. Atomic Energy and Weapons Program. | $622,377.0 | $653,315.0 |
| | | |
| Sonoma Firing Range and Underground Storage Tank Monitoring Wells, Mount Morris Dam, Bradford Island Landfill, John H. Kerr Dam and Reservoir, Missouri River Project, and J. Strom Thurmond Project. | $ 4,396.0 | $0.0 |
| **Total** | $626,773.0 | $653,315.0 |



## Other Information

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

The USACE recognizes current and noncurrent environmental liabilities for FUSRAP in the amount of $622.4 million at the following project sites: St. Louis Downtown Site Accessible Soils; St. Louis Airport Site; Latty Avenue Properties Site;

St. Louis Airport Vicinity Properties Site; Maywood Site Soils; Middlesex Sampling Plant Soils, Shpack Landfill Site; W. R. Grace Building 23 Site; Colonie Interim Storage Site Soils; Luckey Site Soils; Linde Air Products Site Soils; Painesville Site; Ashland Site; St. Louis Downtown Site Inaccessible Soils; Iowa Army Ammunition Plant FUSRAP Site; Colonie Interim Storage Site Groundwater; Maywood Site Groundwater; Middlesex Sampling Plant Site Groundwater; Combustion Engineering Site; DuPont Chambers Works Site; W. R. Grace Radioactive Waste Disposal Area Site; Sylvania-Corning Plant Site; Linde Air Products Site Groundwater; Luckey Site Groundwater; Seaway Industrial Park Site Shallow Land Disposal Area Site; Former Harshaw Chemical Company Site; Guterl Specialty Steel Site; and Niagara Falls Interim Storage Site.

The USACE recognizes contingent environmental liabilities related to FUSRAP, but the liability amounts are currently unknown. The project sites are: St. Louis Downtown Site Inaccessible Soils; Iowa Army Ammunition Plant FUSRAP Site; Middlesex Sampling Plant Site Groundwater; Combustion Engineering Site; DuPont Chambers Works Site; W. R. Grace Radioactive Waste Disposal Area Site; Seaway Industrial Park Site; Niagara Falls Storage Site; Former Harshaw Chemical Company Site; Guterl Specialty Steel Site; Colonie Interim Storage Site Groundwater; Josyln Manufacturing; Scioto Laboratory and Superior Steel Site.

The USACE recognizes other environmental liabilities not related to FUSRAP in the amount of $4.4 million. The project sites are: Sonoma Firing Range and Sonoma Underground Storage Tanks Monitoring Wells in Sonoma, California; Mount Morris Dam in New York; Bradford Island Landfill in Oregon; John H. Kerr Dam and Reservoir in Virginia; Missouri River Project in Nebraska; and J. Strom Thurmond Project in Georgia.

## Environmental Disclosures

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

The USACE uses site-specific engineering estimates for assigning estimated environmental costs. Both the cost to complete remedial investigation/feasibility studies through a Record of Decision and the estimated cost of chosen remedies are reported. Engineering estimates, using appropriate tools, such as the Micro-Computer Assisted Cost Estimating System, and using the extensive data collected during the remedial investigation/feasibility study phase of the environmental project are used. The estimated costs of studies are reported during the early part of the remedial investigation and the estimated cost of the chosen remedy is reported after release of the Proposed Plan.

The USACE is not aware of any pending changes due to inflation, deflation, technology and/or pending changes to applicable laws and/or regulations. The liabilities can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

The volume of contaminated material and the cost to dispose of such material, including transportation, are the elements of project estimates with the greatest uncertainty and potential for significant effect upon project costs.

The USACE Civil Works Program has no potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations.

# Note 15. Other Liabilities

| As of September 30 | 2007 | | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | Current Liability | Noncurrent Liability | Total | Total |
| **1. Intragovernmental** | | | | |
| A. Advances from Others | $ 26,768 | $ 0 | $ 26,768 | $ 9,835 |
| B. Deposit Funds and Suspense Account Liabilities | 2,313 | 0 | 2,313 | 1,648 |
| C. Disbursing Officer Cash | 48 | 0 | 48 | 493 |
| D. Judgment Fund Liabilities | 167,410 | 0 | 167,410 | 164,221 |
| E. FECA Reimbursement to the Department of Labor | 20,660 | 26,335 | 46,995 | 47,746 |
| F. Other Liabilities | 127,283 | 1,516,995 | 1,644,278 | 1,763,630 |
| G. Total Intragovernmental Other Liabilities | $ 344,482 | $ 1,543,330 | $ 1,887,812 | $ 1,987,573 |
| **2. Nonfederal** | | | | |
| A. Accrued Funded Payroll and Benefits | $ 399,215 | $ 0 | $ 399,215 | $ 380,917 |
| B. Advances from Others | 111,813 | 0 | 111,813 | 132,360 |
| C. Deferred Credits | 0 | 0 | 0 | 0 |
| D. Deposit Funds and Suspense Accounts | 7,596 | 0 | 7,596 | 6,978 |
| E. Temporary Early Retirement Authority | 0 | 0 | 0 | 0 |
| F. Nonenvironmental Disposal Liabilities | | | | |
| (1) Military Equipment (Nonnuclear) | 0 | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 0 | 0 | 0 |
| G. Accrued Unfunded Annual Leave | 0 | 0 | 0 | 0 |
| H. Capital Lease Liability | 0 | 0 | 0 | 0 |
| I. Other Liabilities | 142,322 | 0 | 142,322 | 233,144 |
| J. Total Nonfederal Other Liabilities | $ 660,946 | $ 0 | $ 660,946 | $ 753,399 |
| **3. Total Other Liabilities** | $ 1,005,428 | $ 1,543,330 | $ 2,548,758 | $ 2,740,972 |

### Other Information

Intragovernmental Other Liabilities (current) includes the custodial liability to offset interest and accounts receivable that, when collected, will be deposited in the U.S. Treasury, and the liability for employer contributions and payroll taxes payable. Intragovernmental Other Liabilities (noncurrent) represent future revenue from long-term water storage contracts and hydraulic mining contracts. The USACE records a custodial liability for receivables from water storage and hydraulic mining contracts.

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



Judgment Fund Liabilities. The USACE Civil Works Directorate has recognized 38 unfunded liabilities arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." The USACE cannot fund the CDA claims since it is funded for projects and does not include an allowance for this type of claim. The USACE sought supplemental appropriations for payment of CDA claims in FY 2000 and FY 2006 that were not approved. The FY 2007 budget does not provide funding for payment of the CDA claims. The U.S. Government Accountability Office is currently reviewing the status of the outstanding CDA claims and should provide recommendations regarding the payment or other treatment of these claims.

## Capital Lease Liability

Not Applicable.

# Note 16. Commitments and Contingencies

**Disclosures Related to Commitments and Contingencies:**

The USACE is a party in various administrative proceedings and legal actions, with claims including environmental damage claims, equal opportunity matters, and contractual bid protests. The USACE has accrued contingent liabilities for legal actions where USACE Office of the General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Judgment Fund. The USACE reports Judgment Fund liabilities in Note 15, "Other Liabilities" and Note 12, "Accounts Payable."

The USACE has 29 legal cases above the materiality threshold of $7.2 million and OGC has determined that 11 cases are undeterminable, 9 are remote, 2 are probable, and 7 cases are reasonably possible. The USACE management treated the 11 cases that OCG was not able to determine as reasonably possible. The total amount of these 11 claims is $330.0 million and the potential loss is not determinable.

The USACE also has a total of $260.0 million in pending contract claims, civil litigation, and tort cases primarily as a result of damage claims that are individually under the threshold of $7.2 million. As such, the likelihood of an unfavorable outcome or potential liability is provided as an overall assessment of all cases currently pending and not on an individual basis (as with the over-threshold cases). The likelihood of an unfavorable or potential liability was determined by using a three-year historical average. The total dollar amount of the cases closed was divided by the total dollar amount claimed in those closed cases for each of the last three years that were then used to calculate the three year average of 10%. The merits of each individual case have not been taken into consideration. Based on the 10% average, a contingent liability was recorded. Refer to Note 15, "Other Liabilities," for disclosure of contingent liabilities.

The amounts disclosed for litigations, claims, and assessments are fully supportable and agree with USACE's legal representation letters and management summary schedule.

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

The USACE is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may or may not result in a future outflow of expenditures. Currently, USACE does not have a systemic process by which it captures or assesses these potential contingent liabilities; therefore, the amounts reported may not fairly present USACE's contingent liabilities.

The USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), which was established to respond to radiological contamination from the early U.S. Atomic Energy and Weapons Program. The FUSRAP program is funded through a Civil Works appropriation. The USACE recognizes liabilities related to this program but the liability amounts are currently unknown. Refer to Note 14, "Environmental Liabilities and Disposal Liabilities," for disclosure of contingent environmental liabilities related to FUSRAP. Since these cases fail to satisfy the criteria to record a contingent liability in accordance with the Statement of Federal Financial Accounting Standard No. 5, "Accounting for Liabilities of the Federal Government," no amount is included in the financial statements.

# Note 17. Military Retirement and Other Federal Employment Benefits

| As of September 30 | 2007 | | | | 2006 |
|---|---|---|---|---|---|
| (Amounts in thousands) | Present Value of Benefits | Assumed Interest Rate (%) | (Less: Assets Available to Pay Benefits) | Unfunded Liability | Present Value of Benefits |
| **1. Pension and Health Actuarial Benefits** | | | | | |
| A. Military Retirement Pensions | $ 0 | | $ 0 | $ 0 | $ 0 |
| B. Military Retirement Health Benefits | 0 | | 0 | 0 | 0 |
| C. Military Medicare-Eligible Retiree Benefits | 0 | | 0 | 0 | 0 |
| D. Total Pension and Health Actuarial Benefits | $ 0 | | $ 0 | $ 0 | $ 0 |
| **2. Other Actuarial Benefits** | | | | | |
| A. FECA | $ 251,584 | 4.93 | $ 0 | $ 251,584 | $ 250,272 |
| B. Voluntary Separation Incentive Programs | 0 | | 0 | 0 | 0 |
| C. DoD Education Benefits Fund | 0 | | 0 | 0 | 0 |
| D. Total Other Actuarial Benefits | $ 251,584 | | $ 0 | $ 251,584 | $ 250,272 |
| **3. Other Federal Employment Benefits** | $ 303 | | $ (303) | $ 0 | $ 303 |
| **4. Total Military Retirement and Other Federal Employment Benefits:** | $ 251,887 | | $ (303) | $ 251,584 | $ 250,575 |

## Federal Employees Compensation Act (FECA)

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

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

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



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

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

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

**Other Disclosures**

The estimated actuarial liability is calculated at the end of each fiscal year. The USACE actuarial liability increased $1.3 million since the previous calculation at the end of FY 2006.

Other Federal Employment Benefits consist of accrued civilian severance pay.

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

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| 1. Intragovernmental Costs | $ | 1,147,526 | $ | 1,336,192 |
| 2. Public Costs | | 8,082,853 | | 9,860,164 |
| **3. Total Costs** | $ | 9,230,379 | $ | 11,196,356 |
| 4. Intragovernmental Earned Revenue | $ | (2,464,498) | $ | (4,593,977) |
| 5. Public Earned Revenue | | (274,805) | | (510,951) |
| **6. Total Earned Revenue** | $ | (2,739,303) | $ | (5,104,928) |
| **7. Net Cost of Operations** | $ | 6,491,076 | $ | 6,091,428 |

**Other Information**

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

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

The SNC is based on general ledger financial data reported from the Corps of Engineers Financial Management System. The USACE records transactions on an accrual basis as required by the Statements of Federal Financial Accounting Standards and generally accepted accounting principles.

There are no costs associated with acquiring, constructing, improving, reconstructing or renovating heritage assets or acquiring stewardship land.

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

| As of September 30 | 2007 | | 2006 | |
|---|---|---|---|---|
| *(Amounts in thousands)* | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| **1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance** | | | | |
| A. Changes in Accounting Standards | $ (450,381) | $ (35,335) | $ 0 | $ 0 |
| B. Errors and Omissions in Prior Year Accounting Reports | 0 | 0 | 0 | 0 |
| **C. Total Prior Period Adjustments** | $ (450,381) | $ (35,335) | $ 0 | $ 0 |
| **2. Imputed Financing** | | | | |
| A. Civilian CSRS/FERS Retirement | $ 86,981 | $ 0 | $ 92,355 | $ 0 |
| B. Civilian Health | 145,685 | 0 | 139,010 | 0 |
| C. Civilian Life Insurance | 405 | 0 | 402 | 0 |
| D. Judgment Fund | 4,442 | 0 | 29,857 | 0 |
| E. IntraEntity | 0 | 0 | 0 | 0 |
| **F. Total Imputed Financing** | $ 237,513 | $ 0 | $ 261,624 | $ 0 |

## Abnormal Balance

Budgetary financing sources – non exchange revenue for other fund types has an abnormal balance of $239.0 thousand due to the reversal of a prior year transaction in 1st Quarter, FY 2007.

## Other Information

Prior Period Adjustments: Changes in Accounting Principles. In accordance with Office of Management and Budget (OMB), Circular A-136, "Financial Reporting Requirements," USACE implemented a new reporting procedure in 1st Quarter, FY 2007, to exclude transfer appropriation accounts for parent/child relationships. The circular requires the parent agency, vice the child, report all financial activity in its financial statements. The USACE has removed the transfer appropriation accounts from its financial statements. Therefore, USACE recognized a prior period adjustment of $485.7 million that is equal to the results of operations for $450.4 million and unexpended appropriations for $35.3 million for the period ending September 30, 2006, for the transfer appropriations.

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



In the SCNP, all offsetting balances (i.e. transfers-in and transfers-out, revenues and expenses) for intradepartment activity between earmarked and other (non-earmarked) funds are reported on the same lines. This results in an eliminations column, which appears to contain no balances. In reality, the column contains all appropriate elimination entries, but all net to zero within each respective line, except for intraentity imputed financing costs.

Cumulative Results of Operations – Earmarked Funds ending balance on the SCNP does not agree with the Cumulative Results of Operations – Earmarked Funds reported on the Balance Sheet because the cumulative results on the Balance Sheet are presented net of eliminations.

# Note 20. Disclosures Related to the Statement of Budgetary Resources

| As of September 30 | | 2007 | | 2006 |
|---|---|---|---|---|
| *(Amounts in thousands)* | | | | |
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | $ | 4,361,099 | $ | 3,985,839 |
| 2. Available Borrowing and Contract Authority at the End of the Period | | 0 | | 0 |

**Other Information**

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

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A in the Statement of Budgetary Resources (SBR) includes: $6.9 billion for direct obligations; $37.9 million for direct obligations exempt from apportionment; and $8.5 billion for reimbursable obligations. The USACE did not report any reimbursable obligations exempt from apportionment. The USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

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

Borrowing authority used consists of amounts withdrawn from the U.S. Treasury. The USACE borrowed funds for capital improvements to the Washington Aqueduct during fiscal years 1997, 1998, and 1999. USACE executed three promissory notes totaling $75.0 million with the U.S. Treasury. All borrowing from the U.S. Treasury was completed in 1999. The USACE entered into agreements with the District of Columbia, Arlington County, Virginia, and the city of Falls Church, Virginia, to provide funding to USACE to repay the loan. As of 2nd Quarter, FY 2004, the District of Columbia had provided its entire portion of the funding to USACE. The remaining balance is scheduled to be paid off by FY 2023. Total principal repayments in FY 2007 were $675.0 thousand and the remaining capitalized interest of $332.0 thousand was paid in 2nd Quarter, FY 2007.

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.

Appropriations on the SBR 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 of $1.6 billion includes: appropriated trust funds in the amount of $1.2 billion, and contributed and special fund receipts in the amount of $456.2 million. These funds do not update the proprietary appropriations received amount reported on the SCNP.

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

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

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

*(in millions of dollars)*

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

# Note 21. Reconciliation of Net Cost of Operations to Budget

| As of September 30 | 2007 | 2006 |
|---|---|---|
| *(Amounts in thousands)* | | |
| **Resources Used to Finance Activities:** | | |
| **Budgetary Resources Obligated:** | | |
| 1. Obligations incurred | $ 15,403,747 | $ 18,403,011 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | (8,112,277) | (10,400,937) |
| 3. Obligations net of offsetting collections and recoveries | $ 7,291,470 | $ 8,002,074 |
| 4. Less: Offsetting receipts (-) | (521,925) | (1,906,618) |
| 5. Net obligations | $ 6,769,545 | $ 6,095,456 |
| Other Resources: | | |
| 6. Donations and forfeitures of property | 11,105 | 19,888 |
| 7. Transfers in/out without reimbursement (+/-) | 23,539 | 186 |
| 8. Imputed financing from costs absorbed by others | 237,513 | 261,624 |
| 9. Other (+/-) | 0 | 0 |
| 10. Net other resources used to finance activities | $ 272,157 | $ 281,698 |
| **11. Total resources used to finance activities** | $ 7,041,702 | $ 6,377,154 |
| **Resources Used to Finance Items not Part of the Net Cost of Operations:** | | |
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | |
| 12a. Undelivered Orders (-) | $ (427,836) | $ (1,566,815) |
| 12b. Unfilled Customer Orders | (784,515) | (696,847) |
| 13. Resources that fund expenses recognized in prior Periods (-) | (45,160) | (23,032) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | 521,925 | 1,906,618 |
| 15. Resources that finance the acquisition of assets (-) | (13,473) | (7,078) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | (10,000) | (10,000) |
| 16b. Other (+/-) | (34,644) | (20,075) |
| 17. Total resources used to finance items not part of the Net Cost of Operations | $ (793,703) | $ (417,229) |
| 18. Total resources used to finance the Net Cost of Operations | $ 6,247,999 | $ 5,959,925 |
| **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: | | |
| 19. Increase in annual leave liability | $ 0 | $ 0 |
| 20. Increase in environmental and disposal liability | 4,396 | 123,698 |
| 21. Upward/Downward reestimates of credit subsidy expense (+/-) | 0 | 0 |
| 22. Increase in exchange revenue receivable from the public (-) | (6,059) | (16,838) |
| 23. Other (+/-) | 1,697 | 326,995 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | $ 34 | $ 433,855 |
| Components not Requiring or Generating Resources: | | |
| 25. Depreciation and amortization | $ 519,322 | $ 525,076 |
| 26. Revaluation of assets or liabilities (+/-) | 471,331 | (269,050) |
| 27. Other (+/-) | | |
| 27a. Trust Fund Exchange Revenue | 0 | 0 |
| 27b. Cost of Goods Sold | 2,025 | 743 |
| 27c. Operating Material and Supplies Used | 254 | 0 |
| 27d. Other | (749,889) | (559,121) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | $ 243,043 | $ (302,352) |
| **29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period** | $ 243,077 | $ 131,503 |
| **30. Net Cost of Operations** | $ 6,491,076 | $ 6,091,428 |

**Other Information**

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

Obligations Incurred
Less: Spending Authority from Offsetting Collections and Recoveries
Obligations Net of Offsetting Collections and Recoveries
Less: 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 – This includes asset donations and the net amount of assets transferred to USACE from other government agencies.

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

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

Liabilities not covered by budgetary resources reported on the Balance Sheet and Note 11 decreased $159.2 million. Components requiring or generating resources in future periods on Statement of Financing totals $6.0 million, for a total difference between the two statements of $165.2 million. Liabilities not covered by budgetary resources are cumulative on the Balance Sheet and Note 11. Components not requiring or generating resources in future periods reflect only the current fiscal year amounts. The differences are attributed to: (1) custodial liabilities primarily related to water storage contracts decreased by $119.4 million with no offsetting reduction in unfunded expense; (2) the unfunded expense related to Formerly Utilized Sites Remedial Action Program environmental liabilities decreased by $30.9 million; FECA liability decreased by $751.3 thousand; and contracts with continuation clauses decreased by $4.3 million; (3) the unfunded principal balance of debt payable to the U.S. Treasury for Borrowing Authority decreased by $674.8 thousand with no offsetting reduction in unfunded expense; and (4) the unfunded expense related to Judgment Fund CDA claims and contingent liabilities in the General Fund decreased by $9.2 million.

## Note 22. Disclosures Related to Incidental Custodial Collections

Not Applicable.

# Note 23. Earmarked Funds

| BALANCE SHEET | Military Retirement Fund | Medicare Eligible Retiree Health Care Fund | Other Earmarked Funds | Eliminations | Total |
|---|---|---|---|---|---|
| As of September 30, 2007 | | | | | |
| *(Amounts in thousands)* | | | | | |
| **ASSETS** | | | | | |
| Fund balance with Treasury | $ 0 | $ 0 | $ 661,306 | $ 0 | $ 661,306 |
| Investments | 0 | 0 | 4,038,353 | 0 | 4,038,353 |
| Accounts and Interest Receivable | 0 | 0 | 478,404 | 0 | 478,404 |
| Other Assets | 0 | 0 | 1,244,419 | 0 | 1,244,419 |
| Total Assets | $ 0 | $ 0 | $ 6,422,482 | $ 0 | $ 6,422,482 |
| **LIABILITIES and NET POSITION** | | | | | |
| Military Retirement Benefits and Other Federal Employment Benefits | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Other Liabilities | 0 | 0 | 111,881 | (267) | 111,614 |
| Total Liabilities | $ 0 | $ 0 | $ 111,881 | $ (267) | $ 111,614 |
| Unexpended Appropriations | 0 | 0 | 0 | 0 | 0 |
| Cumulative Results of Operations | 0 | 0 | 6,310,601 | (181,049) | 6,129,552 |
| Total Liabilities and Net Position | $ 0 | $ 0 | $ 6,422,482 | $ (181,316) | $ 6,241,166 |
| **STATEMENT OF NET COST** | | | | | |
| Program Costs | $ 0 | $ 0 | $ 1,326,345 | $ (32,111) | $ 1,294,234 |
| Less Earned Revenue | 0 | 0 | (61) | 57 | (4) |
| Net Program Costs | $ 0 | $ 0 | $ 1,326,284 | $ (32,054) | $ 1,294,230 |
| Less Earned Revenues Not Attributable to Programs | 0 | 0 | 0 | 0 | 0 |
| Net Cost of Operations | $ 0 | $ 0 | $ 1,326,284 | $ (32,054) | $ 1,294,230 |
| **STATEMENT OF CHANGES IN NET POSITION** | | | | | |
| Net Position Beginning of the Period | $ 0 | $ 0 | $ 5,380,665 | $ 0 | $ 5,380,665 |
| Net Cost of Operations | 0 | 0 | 1,326,284 | (32,054) | 1,294,230 |
| Budgetary Financing Sources | 0 | 0 | 2,000,075 | (213,103) | 1,786,972 |
| Other Financing Sources | 0 | 0 | 256,145 | 0 | 256,145 |
| Change in Net Position | $ 0 | $ 0 | $ 929,936 | $ (181,049) | $ 748,887 |
| Net Position End of Period | $ 0 | $ 0 | $ 6,310,601 | $ (181,049) | $ 6,129,552 |

## Other Disclosures

The Total column is shown as consolidated. All intragovernmental activity within the Department of Defense between earmarked and nonearmarked funds has been eliminated from this column, which causes assets to not equal liabilities and net position.

## USACE Earmarked Funds

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

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

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

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

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



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

Coastal Wetlands Restoration Trust Fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to USACE, along with the Environmental Protection Agency, and the Fish and Wildlife Service to work with the state of

Louisiana to develop, review, evaluate, and approve a plan that is proposed to achieve a goal of "no net loss of wetlands" in coastal Louisiana. The USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is classified as a trust fund expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund.

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

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

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

## Note 24. Other Disclosures

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

## Note 25. Restatements



USACE currently is completing both its FY 2006 and 2007 financial statement audits with expected completion in December 2007. Based on the on-going audits USACE management has determined there are departures from generally accepted accounting principles (GAAP). These departures include valuation errors in assets, completeness and valuation errors in liabilities and the offsetting impacts to revenues and expenses as well as budgetary reclassifications and missing disclosures required to comply with Office of Management and Budget form and content requirements. USACE will publish out-of-cycle FY 2006 and 2007 financial statements during December 2007 that will include adjustments to ensure the statements and disclosures are in full conformity with GAAP. Until the adjustments can be fully reflected in the December 2007 out-of-cycle financial statements, readers should not fully rely on these statements and disclosures.

Following is a summary impact of currently known uncorrected misstatements not reflected in the fiscal year 2006 financial statements:

| *(Dollars in Thousands)* | **2006** |
|---|---|
| **Consolidated Balance Sheet:** | Increase/(Decrease) |
| Accounts Receivable - Intragovernmental | $288,504 |
| Accounts Receivable - Public | (132,341) |
| General Property, Plant and Equipment, Net | (717,757) |
| Other Assets - Public | (440,839) |
| Total Assets | (1,002,433) |
| Accounts Payable - Intragovernmental | 39,188 |
| Other Liabilities - Intragovernmental | (132,342) |
| Accounts Payable - Public | 419,836 |
| Environmental and Disposal Liabilities | 4,182 |
| Other Liabilities - Public | (59,477) |
| Total Liabilities | 271,387 |
| Unexpended Appropriations - Other Funds | (396,843) |
| Cumulative Results of Operations - Other Funds | ($876,977) |
| Total Net Position | ($1,273,820) |
| | |
| **Consolidated Statement of Net Cost:** | |
| Gross Costs | $497,906 |
| Earned Revenue | 148,804 |
| Net Cost of Operations | $349,102 |
| | |
| **Consolidated Statement of Changes in Net Position:** | |
| Cumulative Results of Operations | |
| Appropriations Used | $396,843 |
| Prior Period Adjustment | (926,218) |
| Imputed Financing From Cost Absorbed by Others | 1,500 |
| Net Cost of Operations | (349,102) |
| Total Ending Cumulative Results of Operations | (876,977) |
| Unexpended Appropriations | |
| Appropriations Used | (396,843) |
| Total Ending Unexpended Appropriations | ($396,843) |
| | |
| **Combined Statement of Budgetary Resources:** | |
| Recoveries of Prior Year Unpaid Obligations | $418,243 |
| Spending Authority from Offsetting Collections - Earned - Collected | 58,477 |
| Spending Authority from Offsetting Collections - Earned - Change in Receivable from Federal Sources | 288,505 |
| Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Advance Received | (58,477) |
| Spending Authority from Offsetting Collections - Change in Unfilled Customer Orders - Without Advance from Federal Sources | (288,505) |
| Total Budgetary Resources | 418,243 |
| Obligations Incurred - Direct | 341,175 |
| Unobligated Balance - Apportioned | 77,068 |
| Total Status of Budgetary Resources | 418,243 |
| Distributed Offsetting Receipts | ($1,404,342) |

# Required Supplementary Stewardship Information (RSSI)

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

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

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

**Narrative Statement:**

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

**Notes:**

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

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

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

### Nonfederal Physical Property
### Yearly Investment in State and Local Governments

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

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

**Narrative Statement:**

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

**Notes:**

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

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

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

# Required Supplementary Information (RSI)

**Heritage Assets**

For Fiscal Year Ended September 2007

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

**Narrative Statement**

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

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

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

4. **Heritage Asset Categories.**

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

   b. The latest listing (October 2, 2007) of the National Register of Historic Places Internet Database (www.cr.nps.gov/nr) has been reviewed. Heritage assets classified as Land are special land plots containing archaeological sites either listed on the National Register of Historic Places or eligible to be listed by the agency and the Keeper of the National Register. Cemeteries and Archeological Sites are archeological properties listed on, or eligible for, listing in the National Register of Historic Places. These archeological assets cover almost the entire range of human occupation of the Continental United States, beginning with the Kennewick Man Discovery Site in Washington State, dating to approximately 10,000 years before present, to archeological remains of early European-American settlements, including Fort Independence in Georgia.

The current National Register inventory for USACE includes 489 archeological properties determined to be eligible for listing and 97 archeological properties listed. This total of 586 archeological properties qualifying as Heritage Assets reflects no change from the previous quarterly report.

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

**General Property, Plant and Equipment**
**Real Property Deferred Maintenance Amounts**

As of 30 September 2007

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

**Narrative Statement:**

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

*Department of Defense - US Army Corps of Engineers*

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Civil Works | 2007 Combined | 2006 Combined |
|---|---|---|---|
| **Budgetary Financing Accounts** | | | |
| **BUDGETARY RESOURCES** | | | |
| Unobligated balance, brought forward, October 1 | $ 9,368,272 | $ 9,368,272 | $ 5,003,186 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 |
| Budget authority | | | |
| Appropriation | 7,503,579 | 7,503,579 | 12,439,718 |
| Borrowing authority | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | |
| Earned | | | |
| Collected | 10,401,272 | 10,401,273 | 9,407,099 |
| Change in receivables from Federal sources | (1,504,481) | (1,504,481) | 1,690,685 |
| Change in unfilled customer orders | | | |
| Advance received | (4,115) | (4,115) | 22,685 |
| Without advance from Federal sources | (780,400) | (780,400) | (719,532) |
| Anticipated for rest of year, without advances | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 |
| Subtotal | $ 15,615,855 | $ 15,615,856 | $ 22,840,655 |
| Nonexpenditure transfers, net, anticipated and actual | 78,583 | 78,583 | (8,068) |
| Temporarily not available pursuant to Public Law | (10,000) | (10,000) | (10,000) |
| Permanently not available | (732) | (732) | (54,490) |
| **Total Budgetary Resources** | $ 25,051,978 | $ 25,051,979 | $ 27,771,283 |
| | | | |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred: | | | |
| Direct | $ 6,924,552 | $ 6,924,552 | $ 6,902,331 |
| Reimbursable | 8,479,194 | 8,479,195 | 11,500,680 |
| Subtotal | $ 15,403,746 | $ 15,403,747 | $ 18,403,011 |
| Unobligated balance: | | | |
| Apportioned | 8,742,925 | 8,742,926 | 8,621,365 |
| Exempt from apportionment | 895,064 | 895,064 | 746,850 |
| Subtotal | $ 9,637,989 | $ 9,637,990 | $ 9,368,215 |
| Unobligated balance not available | 10,243 | 10,242 | 57 |
| **Total status of budgetary resources** | $ 25,051,978 | $ 25,051,979 | $ 27,771,283 |
| **Change in Obligated Balance:** | | | |
| Obligated balance, net | | | |
| Unpaid obligations, brought forward, October 1 | $ 5,478,110 | $ 5,478,111 | $ 3,945,373 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (6,421,138) | (6,421,138) | (5,449,985) |
| Total unpaid obligated balance | $ (943,028) | $ (943,027) | $ (1,504,612) |
| Obligations incurred net () | $ 15,403,747 | $ 15,403,747 | $ 18,403,011 |
| Less: Gross outlays | (14,836,212) | (14,836,212) | (16,870,276) |
| Obligated balance transferred, net | | | |
| Actual transfers, unpaid obligations () | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources () | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | 0 | 0 | 0 |
| Less: Recoveries of prior year unpaid obligations, actual | 0 | 0 | 0 |
| Change in uncollected customer payments from Federal sources () | 2,284,880 | 2,284,881 | (971,153) |
| Obligated balance, net, end of period | | | |
| Unpaid obligations | 6,045,645 | 6,045,644 | 5,478,111 |
| Less: Uncollected customer payments () from Federal sources (-) | (4,136,258) | (4,136,258) | (6,421,138) |
| Total, unpaid obligated balance, net, end of period | $ 1,909,387 | $ 1,909,386 | $ (943,027) |
| **Net Outlays** | | | |
| **Net Outlays:** | | | |
| Gross outlays | 14,836,212 | 14,836,212 | 16,870,276 |
| Less: Offsetting collections | (10,397,157) | (10,397,157) | (9,429,787) |
| Less: Distributed Offsetting receipts | (521,925) | (521,925) | (1,906,618) |
| **Net Outlays** | $ 3,917,130 | $ 3,917,130 | $ 5,533,871 |

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

# STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

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

| | Civil Works | 2007 Combined | 2006 Combined |
|---|---|---|---|
| **Non-Budgetary Financing Accounts** | | | |
| **BUDGETARY RESOURCES** | | | |
| Unobligated balance, brought forward, October 1 | $ 0 | $ 0 | $ 0 |
| Recoveries of prior year unpaid obligations | 0 | 0 | 0 |
| Budget authority | | | |
| Appropriation | 0 | 0 | 0 |
| Borrowing authority | 0 | 0 | 0 |
| Contract authority | 0 | 0 | 0 |
| Spending authority from offsetting collections | | | |
| Earned | | | |
| Collected | 0 | 0 | 0 |
| Change in receivables from Federal sources | 0 | 0 | 0 |
| Change in unfilled customer orders | | | |
| Advance received | 0 | 0 | 0 |
| Without advance from Federal sources | 0 | 0 | 0 |
| Anticipated for rest of year, without advances | 0 | 0 | 0 |
| Previously unavailable | 0 | 0 | 0 |
| Expenditure transfers from trust funds | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Nonexpenditure transfers, net, anticipated and actual | 0 | 0 | 0 |
| Temporarily not available pursuant to Public Law | 0 | 0 | 0 |
| Permanently not available | 0 | 0 | 0 |
| **Total Budgetary Resources** | $ 0 | $ 0 | $ 0 |
| | | | |
| **Status of Budgetary Resources:** | | | |
| Obligations incurred: | | | |
| Direct | $ 0 | $ 0 | $ 0 |
| Reimbursable | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Unobligated balance: | | | |
| Apportioned | 0 | 0 | 0 |
| Exempt from apportionment | 0 | 0 | 0 |
| Subtotal | $ 0 | $ 0 | $ 0 |
| Unobligated balance not available | 0 | 0 | 0 |
| **Total status of budgetary resources** | $ 0 | $ 0 | $ 0 |
| **Change in Obligated Balance:** | | | |
| Obligated balance, net | | | |
| Unpaid obligations, brought forward, October 1 | $ 0 | $ 0 | $ 0 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | 0 | 0 | 0 |
| Total unpaid obligated balance | $ 0 | $ 0 | $ 0 |
| Obligations incurred net () | $ 0 | $ 0 | $ 0 |
| Less: Gross outlays | 0 | 0 | 0 |
| Obligated balance transferred, net | | | |
| Actual transfers, unpaid obligations () | 0 | 0 | 0 |
| Actual transfers, uncollected customer payments from Federal sources () | 0 | 0 | 0 |
| Total Unpaid obligated balance transferred, net | 0 | 0 | 0 |
| Less: Recoveries of prior year unpaid obligations, actual | 0 | 0 | 0 |
| Change in uncollected customer payments from Federal sources () | 0 | 0 | 0 |
| Obligated balance, net, end of period | | | |
| Unpaid obligations | 0 | 0 | 0 |
| Less: Uncollected customer payments () from Federal sources (-) | 0 | 0 | 0 |
| Total, unpaid obligated balance, net, end of period | $ 0 | $ 0 | $ 0 |
| **Net Outlays** | | | |
| **Net Outlays:** | | | |
| Gross outlays | 0 | 0 | 0 |
| Less: Offsetting collections | 0 | 0 | 0 |
| Less: Distributed Offsetting receipts | 0 | 0 | 0 |
| **Net Outlays** | $ 0 | $ 0 | $ 0 |

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

## Schedule, Part A DoD Intra-governmental Asset Balances

*AT96 - US Army Corps of Engineers ($ Amounts in Thousands)*

| | Treasury Index | Fund Balance with Treasury | Accounts Receivable | Loans Receivable | Investments | Other |
|---|---|---|---|---|---|---|
| Unidentifiable Federal Agency Entity (Other than DoD entities) | 0 | | $323 | | | |
| Department of Agriculture | 12 | | $154 | | | |
| Department of Commerce | 13 | | $375 | | | |
| Department of the Interior | 14 | | $405,503 | | | |
| Department of Justice | 15 | | $19 | | | |
| Department of Labor | 16 | | $12 | | | |
| Navy General Fund | 17 | | ($63) | | | |
| United States Postal Service | 18 | | $130 | | | |
| Department of State | 19 | | $944 | | | |
| Department of the Treasury | 20 | $11,165,472 | $5 | | $4,038,353 | |
| Army General Fund | 21 | | $3,615 | | | |
| Office of Personnel Management | 24 | | $1 | | | |
| Social Security Administration | 28 | | $308 | | | |
| Nuclear Regulatory Commission | 31 | | $0 | | | |
| Department of Veterans Affairs | 36 | | $208 | | | |
| Government Printing Office | 4 | | $0 | | | |
| General Service Administration | 47 | | $10 | | | |
| National Science Foundation | 49 | | $10 | | | |
| Air Force General Fund | 57 | | $918 | | | |
| Tennessee Valley Authority | 64 | | $159 | | | |
| Environmental Protection Agency | 68 | | $14,335 | | | |
| Department of Transportation | 69 | | $533 | | | |
| Homeland Security | 70 | | $361,183 | | | |
| Agency for International Development | 72 | | $119 | | | |
| Department of Health and Human Services | 75 | | $0 | | | |
| National Aeronautics and Space Administration | 80 | | $23 | | | |
| Department of Housing and Urban Development | 86 | | $213 | | | |
| Department of Energy | 89 | | $11,671 | | | |
| Department of Education | 91 | | $0 | | | |
| Independent Agencies | 95 | | $6 | | | |
| Other Defense Organizations General Funds | 97 | | $673 | | | |
| Army Working Capital Fund | 97-4930.001 | | $2 | | | |
| The General Fund of the Treasury | 99 | | $71,719 | | | |
| Architect of the Capitol | | | $13 | | | |
| **Totals might not match reports** | **Totals:** | **$11,165,472** | **$873,121** | | **$4,038,353** | |

## Schedule, Part B DoD Intra-governmental entity liabilities

*AT96 - US Army Corps of Engineers ($ Amounts in Thousands)*

| | Treasury Index | Accounts Payable | Debts/Borrowings From Other Agencies | Other |
|---|---|---|---|---|
| Department of Agriculture | 12 | $109 | | $6 |
| Department of Commerce | 13 | $3,391 | | $4,629 |
| Department of the Interior | 14 | $11,343 | | $1,747 |
| Department of Justice | 15 | $1,179 | | $2 |
| Department of Labor | 16 | $0 | | $46,995 |
| Navy General Fund | 17 | $2,394 | | $0 |
| United States Postal Service | 18 | $0 | | $0 |
| Department of State | 19 | $663 | | $19 |
| Department of the Treasury | 20 | $605 | $12,917 | $167,416 |
| Army General Fund | 21 | $4,971 | | $0 |
| Office of Personnel Management | 24 | $4 | | $13,928 |
| Library of Congress | 3 | $8 | | |
| Department of Veterans Affairs | 36 | $121 | | $10,927 |
| Government Printing Office | 4 | $129 | | $0 |
| Appalachian Regional Commission | 46 | $0 | | $2,146 |
| General Service Administration | 47 | $25,484 | | $188 |
| General Accounting Office | 5 | $32 | | $0 |
| Air Force General Fund | 57 | $63 | | $0 |
| Tennessee Valley Authority | 64 | $640 | | $0 |
| Environmental Protection Agency | 68 | $91 | | $34 |
| Department of Transportation | 69 | $1 | | $0 |
| Homeland Security | 70 | $1,311 | | $19 |
| Small Business Administration | 73 | $0 | | $1 |
| Department of Health and Human Services | 75 | $649 | | $554 |
| Department of Energy | 89 | $1,105 | | $6,490 |
| Other Defense Organizations General Funds | 97 | $448 | | $0 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $4,834 | | $0 |
| Army Working Capital Fund | 97-4930.001 | $6 | | $0 |
| Navy Working Capital Fund | 97-4930.002 | $269 | | $0 |
| The General Fund of the Treasury | 99 | $71,719 | | $1,632,712 |
| **Totals might not match reports** | **Totals:** | **$131,569** | **$12,917** | **$1,887,813** |

## Schedule, Part C DoD Intra-governmental revenue and related costs

*AT96 - US Army Corps of Engineers ($ Amounts in Thousands)*

| | Treasury Index | Earned Revenue |
|---|---|---|
| Unidentifiable Federal Agency Entity (Other than DoD entities) | 0 | $2,822 |
| The Judiciary | 10 | $11 |
| Department of Agriculture | 12 | $4,265 |
| Department of Commerce | 13 | $6,104 |
| Department of the Interior | 14 | $51,668 |
| Department of Justice | 15 | $3,837 |
| Department of Labor | 16 | $155 |
| Navy General Fund | 17 | $4,848 |
| United States Postal Service | 18 | $254 |
| Department of State | 19 | $4,380 |
| Department of the Treasury | 20 | $37 |
| Army General Fund | 21 | $738,808 |
| Office of Personnel Management | 24 | $1,427 |
| Social Security Administration | 28 | $311 |
| Federal Trade Commission | 29 | $3 |
| Nuclear Regulatory Commission | 31 | $656 |
| John F. Kennedy Center | 33 | $3,913 |
| Department of Veterans Affairs | 36 | $7,146 |
| Government Printing Office | 4 | $17 |
| U.S. Equal Employment Opportunity Commission | 45 | $3 |
| Appalachian Regional Commission | 46 | $16 |
| General Service Administration | 47 | $1,739 |
| National Science Foundation | 49 | $2,300 |
| General Accounting Office | 5 | $712 |
| Air Force General Fund | 57 | $53,287 |
| Railroad Retirement Board | 60 | $1 |
| Tennessee Valley Authority | 64 | $335 |
| Environmental Protection Agency | 68 | $81,007 |
| Department of Transportation | 69 | $6,671 |
| Homeland Security | 70 | $1,290,905 |
| Agency for International Development | 72 | $4,568 |
| Small Business Administration | 73 | $4 |
| American Battle Monuments | 74 | $100 |
| Department of Health and Human Services | 75 | $6,877 |
| National Aeronautics and Space Administration | 80 | $16,700 |
| Department of Housing and Urban Development | 86 | $2,518 |
| National Archives and Records Administration | 88 | $1 |
| Department of Energy | 89 | $66,186 |
| Department of Education | 91 | $84 |
| Independent Agencies | 95 | $170 |
| Other Defense Organizations General Funds | 97 | $81,507 |
| Other Defense Organizations Working Capital Funds | 97-4930 | $4 |
| Army Working Capital Fund | 97-4930.001 | $51 |
| Navy Working Capital Fund | 97-4930.002 | $76 |
| Architect of the Capitol | | $18,018 |
| **Totals might not match reports** | **Totals:** | **$2,464,502** |

## Schedule, Part C DoD Intra-governmental revenue and related costs

*AT96 - US Army Corps of Engineers ($ Amounts in Thousands)*

| | Treasury Index | Transfers In | Transfers Out |
|---|---|---|---|
| Department of the Interior | 14 | $76,403 | $278 |
| General Service Administration | 47 | $0 | $61 |
| Tennessee Valley Authority | 64 | $0 | $11 |
| Department of Energy | 89 | $104,292 | $1,495 |
| Other Defense Organizations General Funds | 97 | $10 | $0 |
| The General Fund of the Treasury | 99 | $1,087,889 | $1,124,746 |
| **Totals might not match reports** | **Totals:** | **$1,268,594** | **$1,126,591** |

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

November 8, 2007

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

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2007 Basic Financial Statements (Report No. D-2008-019)

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying U.S. Army Corps of Engineers, Civil Works, (USACE) Consolidated Balance Sheet as of September 30, 2007 and 2006, and the related Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources and related notes for the FYs then ended.[1] The basic financial statements are the responsibility of USACE management. USACE is also responsible for implementing effective internal control and for complying with laws and regulations. We are unable to express an opinion on the USACE FY 2007 basic financial statements because of limitations on the scope of our work. Thus the basic financial statements may be unreliable. In addition to our disclaimer of opinion on the basic financial statements, we are including the required Report on Internal Control and Compliance with Laws and Regulations. The Report on Internal Control and Compliance with Laws and Regulations is an integral part of our disclaimer of opinion on the financial statements and should be considered in assessing the results of our work.

**Disclaimer of Opinion on the Basic Financial Statements**

USACE asserted to us that the USACE FY 2007 basic financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as of September 30, 2007. Therefore, we performed auditing procedures required by U.S. Government auditing standards and Office of Management and Budget (OMB) Bulletin No. 07-04 to determine whether material amounts on the USACE FY 2007 basic financial statements were fairly presented. However, time constraints precluded us from performing sufficient procedures to complete the audit. As a result, we are unable to determine whether material amounts on the USACE FY 2007 basic financial statements were fairly presented.[2] Therefore, we are unable to express, and we do not express, an opinion on the basic financial statements. Further, the purpose of the audit was not to express an opinion on Management Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, Other Accompanying Information, and Performance Measures accompanying the basic financial statements. Accordingly, we express no opinion on that information.



As described in Note 25, the FY 2007 and 2006 financial statements contain material uncorrected misstatements related to unrecorded adjustments in FY 2006 and 2007 and therefore are not presented in accordance with GAAP.

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

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

**Summary of Internal Control**

In planning our work, we considered USACE internal controls over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the basic 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.

USACE management has asserted that all corrective actions from previously identified material weaknesses were completed. However, time constraints precluded us from performing sufficient procedures to fully assess internal control over financial reporting and compliance with selected provisions of applicable laws and regulations related to financial reporting or to follow up on previously identified material weaknesses listed below.[3]

- **Accounts Receivable**
- **General Property, Plant, and Equipment**
- **Accounts Payable**
- **Financial Management Systems**

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

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

**Summary of Compliance with Laws and Regulations**

Prior audits identified instances of noncompliance with Federal Managers' Financial Integrity Act of 1982 and OMB Circulars A-123, "Management Accountability and Control," A-127, "Federal Management Systems," and A-130, "Management of Federal Information Resources." In FY 2007 USACE asserted to us that its financial management systems comply substantially with Federal financial management system requirements, GAAP, and the U.S. Government Standard General Ledger at the transaction level, as required by the Federal Financial Management Improvement Act of 1996. However, time constraints precluded us from performing sufficient procedures to determine compliance with laws and regulations related to financial reporting. Providing an opinion on compliance with certain provisions of laws and

[3] The information was reported in GAO Report No. GAO-02-589, "Corps of Engineers Making Improvements, But Weaknesses Continue," June 2002; GAO Report No. GAO-01-89, "Significant Weaknesses in Corps of Engineers' Computer Controls," October 2000; and DoD IG Report No. D-2004-115, "Information System Security: The Followup on the Government Accountability Office and U.S. Army Audit Agency Recommendations for the U.S. Army Corps of Engineers (FOUO)," September 21, 2004.

regulations was not an objective of our audit and, accordingly, we do not express such an opinion. 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 GAAP;
- establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met; and
- complying with applicable laws and regulations.

We have discussed the information in this report with staff in the office of the Chief of Engineers, U.S. Army Corps of Engineers and incorporated their comments as appropriate.

Paul J. Granetto

Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing
Service

# 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; the requirements of applicable laws and regulations are met; and assets are safeguarded against misappropriation and abuse. In planning our work, we considered USACE internal controls over financial reporting and compliance with applicable laws and regulations. We did this to determine our procedures for auditing the basic 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.

We previously identified the material weaknesses (listed below) that could adversely affect USACE's financial reporting. USACE management has since asserted that all corrective actions from previously identified material deficiencies were completed. However, time constraints precluded us from performing sufficient procedures to fully assess internal control over financial reporting and compliance or to follow up on previously identified material weaknesses.

### Previously Identified Material Weaknesses

**Accounts Receivable.** USACE Districts did not provide adequate source data and needed to improve the reconciliation of the general ledger to the subsidiary records for specific samples reviewed.

### General Property, Plant, and Equipment

**Buildings, Structures, and Facilities.** During prior substantive testing, deficiencies were noted involving useful life calculation, support for asset values, placed-in-service dates, asset classification (including bank stabilization), physical existence, and capital lease recording. Our results determined that these policies and procedures were not consistently implemented.

We identified a systemic weakness involving adjustments to records of useful life calculation in the Corps of Engineers Financial Management System. Specifically, the Corps of Engineers Financial Management System did not always distribute depreciation accurately across the life of buildings and structures, which affected the book value, accumulated depreciation, and the balance of the Buildings, Structures, and Facilities line item.

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

**Equipment.** During prior substantive testing, deficiencies were noted involving the lack of adequate documentation to support equipment values. Our results determined that these policies and procedures were not consistently implemented.

**Land.** During prior substantive testing, deficiencies were noted involving land costs originating in the Corps of Engineers Management Information System and the Corps of

Engineers Financial Management System, as well as with classification of reservoir costs. Our results determined that these policies and procedures were not consistently implemented.

**Accounts Payable.** USACE improperly recorded payables, did not properly review aged payables, did not record payables in the proper accounting period, and were unable to provide supporting documentation in a timely manner.

**Financial Management Systems.** USACE had previously acknowledged that its financial management systems did not fully comply with Federal financial management system requirements, GAAP, and the U.S. Standard General Ledger at the transaction level. However, until we verify the USACE FY 2006 assertion that its financial management systems now comply substantially with Federal financial management system requirements, GAAP, and the U.S. Standard General Ledger at the transaction level, the possibility exists that USACE general and application computer control vulnerabilities make it difficult for USACE to ensure the reliability, confidentiality, and availability of financial and other sensitive data.

## Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Prior audits identified instances of noncompliance; however, USACE management has asserted that corrective actions were completed for all previously identified material deficiencies. Time constraints precluded us from performing sufficient procedures to determine compliance. Further, providing an opinion on compliance with laws and regulations was not an objective of our audit. Therefore, we do not express such an opinion.

USACE asserted to us that its financial management systems comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level, as required by the Federal Financial Management Improvement Act of 1996. However, time constraints precluded us from performing sufficient procedures to determine whether USACE complied with all applicable laws and regulations related to financial reporting. Previous DoD Inspector General and Government Accountability Office audits established that USACE did not fully comply with the following financial management system reporting requirements.

- The Federal Managers' Financial Integrity Act of 1982 requires agencies to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. When systems are not compliant, the statement must include a report of material weaknesses with plans and a schedule for correcting the material weaknesses.

- OMB Circular A-123 requires agencies and individual Federal managers to take systematic and proactive measures to assess the adequacy of management controls in Federal programs and operations, identify needed improvements, take corresponding corrective actions, and report annually on management controls.

- OMB Circular A-127 requires agencies to develop, operate, evaluate, and report on financial management systems. It also requires financial management systems that provide complete, reliable, consistent, timely, and useful information.

- OMB Circular A-130, Appendix III: establishes a minimum set of controls to be included in Federal automated information security programs, assigns Federal agencies responsibilities for the security of automated information, and links agency information security programs and agency management control systems established in accordance with OMB Circular A-123.

According to prior Government Accountability Office audit reports, USACE did not fully comply with the Federal Managers' Financial Integrity Act of 1982 and the OMB Circulars A-123 and A-130 requirements to protect the integrity of its financial management systems, identify needed improvements, and take corresponding corrective actions. During FY 2004, the DoD Inspector General reviewed previously identified Government Accountability Office deficiencies related to general and application controls. The DoD Inspector General audit report concluded that USACE had not fully implemented all of the Government Accountability Office recommendations. During FY 2006, USACE asserted that it substantially completed the prior Government Accountability Office recommendations. However, time constraints precluded us from performing sufficient procedures to determine whether USACE complied with all applicable laws and regulations related to financial reporting.

## Audit Disclosures

We did not perform audit work related to the following selected provisions of laws and regulations: Antideficiency Act, Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, Prompt Payment Act, and Provisions Governing Claims of the U.S. Government (including provisions of the Debt Collection Improvement Act of 1996).

This report does not include recommendations to correct the material internal control weaknesses and instances of noncompliance with laws and regulations because either previous audit reports contained recommendations for corrective actions or audit projects currently in process will include appropriate recommendations.

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


**Department of the Army**

Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)
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## The Soldier's Creed

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

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

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

I am an expert and I am a professional.

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

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

I am an American Soldier.

# 2007

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