


2011



Fiscal Year 2011
United States Army
Annual Financial Report

America's Army: At a Strategic Crossroads

U.S. Army Corps of Engineers – Civil Works

America's Army: At a Strategic Crossroads

…Our Nation and its Army are positioned at a unique point in history…

…We must now consider the hard-won lessons of recent combat experience, current and anticipated resource constraints and the uncertainty of the future. The decisions we make will have far reaching and long lasting implications…

Transforming the Generating Force by…

…preparing, training, educating and supporting Army forces worldwide, as well as working to rapidly address the demands placed on the organization by both the current and future operating environments…

…working to provide "readiness at best value" in order to help us live within the constraints imposed by the national and international economic situation…

…working collaboratively to reform our requirements and resourcing process in order to create an organizationally aligned set of capabilities…

…developing a systematic approach to the Army's business processes that will ensure that innovative ideas and efficiencies influence future budgets…

Transforming the Civilian Workforce by…

…calling upon our Civilian Corps increasingly to assume greater levels of responsibility and accountability at organizations throughout the Army…

…integrating requirements determination; allocation and resourcing processes that identify the civilian workforce capabilities…

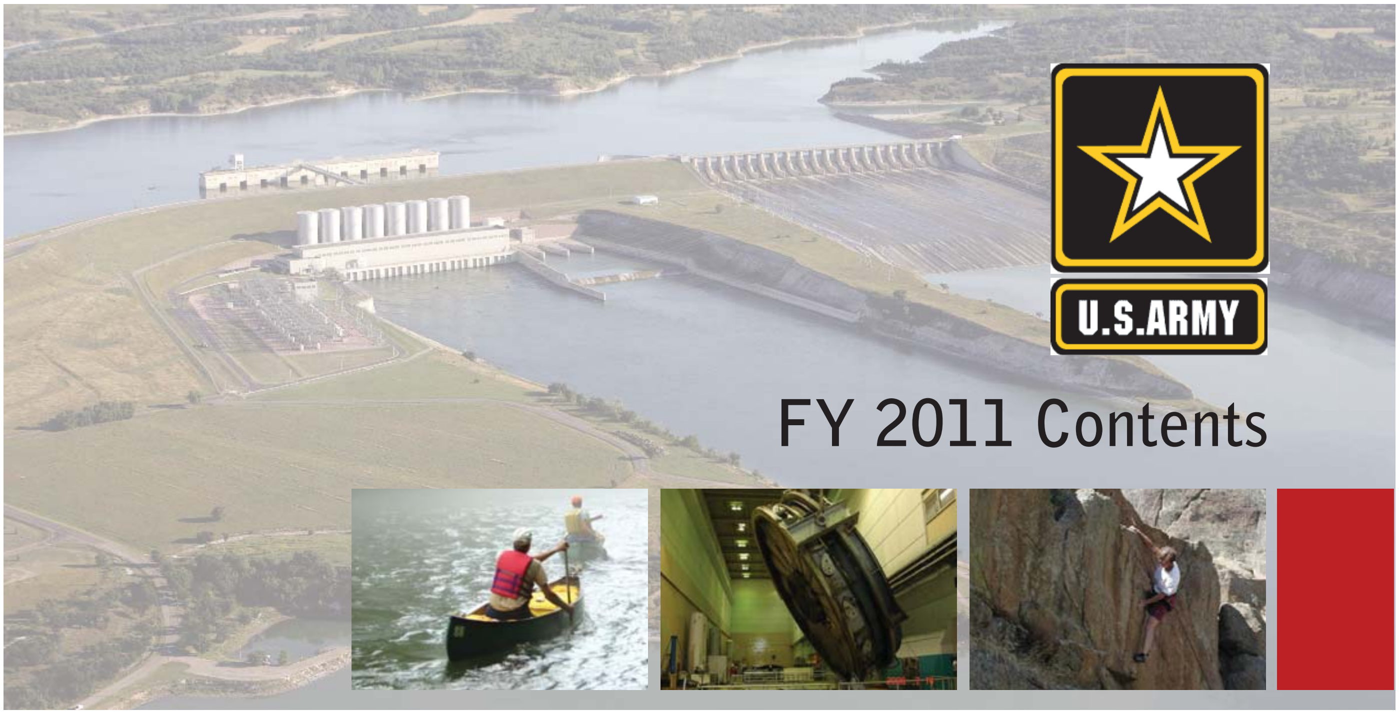
…improving civilian workforce lifecycle strategy; planning and operations to enhance mission effectiveness…

…establishing an integrated management system to support civilian human capital decision making…

…developing Army civilian leaders and reforming the civilian hiring process…

On the Cover (From Left to Right): Soldiers descending from an aircraft Operation Toy Drop on Fort Bragg (Photo by Tech. Sgt. Jeremy Lock) / US Army Rangers, rope bridge training (Photo by John D. Helms) / President Barack Obama and Vice President Joe Biden shake hands with the troops following the president's remarks (Photo by Pete Souza, White House) / Scouts pull overwatch during Operation Destined Strike (Photo by Sgt. Brandon Aird) / A small boy waves an American flag as 1st Infantry Division Soldiers march by during the Sundown Salute Parade (U.S. Army photo by Mollie Miller, 1st Inf. Div. Public Affairs) / U.S. Army Spc. Adam Supino takes a break while on a security halt (U.S. Air Force photo by Staff Sgt. Ryan Crane) / U.S. Army Soldiers in Iraq (U.S. Army photo).

On the Inside Cover: U.S. Army Capt. Scott Hall looks out the door of a UH-60 Black Hawk helicopter while flying over the Logar province in Afghanistan. (Photo by Sgt. Gustavo Olgiati).



FY 2011 Contents

"The strength of our democracy has always rested on the willingness of those who believe in its values and in their will to serve to give something back to this country, to fight and to sacrifice; above all, to do that in times of crisis."

– The Honorable Leon E. Panetta (Secretary of Defense)

01

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

For more than 230 years, the Army Corps of Engineers has been a leader in public engineering as exemplified through the development and management of water resources. As the Corps moves through the 21st Century, it will continue to advance the Civil Works Program strategic goals: assisting in providing for safe and resilient communities and infrastructure; helping facilitate commercial navigation in an environmentally and economically sustainable fashion; restoring degraded aquatic ecosystems and preventing future environmental losses; and implementing effective, reliable, and adaptive life-cycle performance management of infrastructure, all delivered through a competent team.

As society's needs and values have changed, the Civil Works mission has evolved to one that inherently includes protection and restoration of water resources and the ecosystems they support. The Corps has implemented water resources programs and projects that strengthen America's economic competitiveness; reduce risks from floods and hurricanes; help people recover more quickly from disasters; provide American homes and communities with water and power; provide recreational opportunities and natural resources for citizens to enjoy and appreciate; and restore, protect and sustain the natural environment, including wetlands and associated aquatic ecosystems.

Today, the complexity and changing nature of water resources require closer partnerships and more collaboration. The development of federal, state, local and private partnerships, along with increased stakeholder and non-governmental alliance is essential to achieve the most efficient and sustainable solutions. A new overarching strategy, called Integrated Water Resources Management, is being adopted to deal with these complex and changing conditions. This strategy seeks to foster equitable, efficient management and sustainable use of water. It promotes the coordinated development and management of water, land, and related resources to maximize economic and social welfare without compromising the sustainability of vital ecosystems.

The Corps is committed to responsibly developing the Nation's water resources, while protecting, restoring and sustaining environmental quality. The Corps is dedicated to learning from the past and adapting the organization to ensure the United States enjoys a prosperous and sustainable future.

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

"To meet current and future threats, our military must remain the finest in the world. It must be an agile and deployable full-spectrum force that can deter conflict, project power and win wars."

– The Honorable John McHugh (Secretary of the Army)

02

Message from the USACE Chief Financial Officer

As Chief Financial Officer of the United States Army Corps of Engineers (USACE), my number one financial reporting priority is continuous improvement of management controls surrounding our financial business processes. Our hard work and dedication to this priority has resulted in not only our fourth consecutive "clean" audit opinion but also significant improvements in our management controls. We had four material weaknesses in the prior year and, through aggressive corrective action plans and a strong partnership with the auditor community, all are mitigated with the exception of entity-wide controls. We have already initialed corrective actions to correct the entity-wide controls material weakness and I fully expect it will be cured during Fiscal Year 2012.

The Civil Works Annual Financial Report provides information on our strong commitment to accountability, effective management of financial resources, and sound business processes. This commitment to improvements in our business processes and strengthened internal controls provide substantially reliable and complete performance and financial data. Our robust internal control program includes well documented processes, risks assessments, and testing of controls, in accordance with Office of Management and Budget Circular Number A-123 Appendix A, *Internal Control over Financial Reporting*. Based on our testing, I issued an unqualified statement of assurance in July 2011, that the internal controls over financial reporting are operating effectively.

Fiscal Year 2011 saw another historic year regarding workload with approximately $20.1 billion obligated. Our funds allocation decisions are increasingly reliant on our fully integrated financial system, and resulting financial statements, to provide assurance that system controls are designed and implemented effectively.

I am proud of everyone within USACE who continues to strive toward greatness in financial management. This report and the accomplishments it describes reflect their extraordinary dedication to duty.

Wesley C. Miller
Chief Financial Officer

03

Management's Discussion and Analysis

Overview

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

Mission

The Civil Works mission of the USACE is to (1) contribute to the national welfare and serve the nation with quality, responsive development, and management of the nation's water resources; (2) protect, restore, and manage the environment; (3) respond to disasters and aid in recovery; and (4) provide engineering and technical services. This multi-faceted mission is accomplished in an environmentally sustainable, economically and technically sound manner through partnerships with other government agencies and nongovernment organizations.

Developing and Managing Water Resources

The original role of the USACE in Civil Works, as it related to developing and managing water resources, was to support navigation by maintaining and improving federal navigation channels. Over the years, and through subsequent legislation, the Corps' role has expanded to include flood risk management, improvement of aquatic habitat, generation of hydroelectric power, creation of recreation opportunities, provision of water storage for municipal and industrial water supplies, regulation of discharges into navigable waters, and emergency planning and management

Protecting, Restoring and Managing the Environment

The Rivers and Harbors Act of 1890 required the Corps to prevent the obstruction of navigable waterways. As environmental concerns grew in the late 20th century, the National Environmental Policy Act of 1969 and the Clean Water Act of 1972 greatly broadened the scope of the Corps' responsibility for regulating discharges into United States (U.S.) waters, including the country's wetlands. The Civil Works program's environmental responsibilities have continued to increase through legislation and now include aquatic ecosystem restoration, remedial activities at former defense sites, and overall stewardship responsibilities.

Responding and Assisting in Disaster Relief

Throughout the Corps' history, the United States has relied on the Civil Works program for help both in times of natural and man-made disasters. The Corps responds to natural disasters under the Flood Control and Coastal Emergency Act (Public Law (P.L.) 84-99, as amended) and to man-made disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). The Civil Works program's primary role in emergency relief and recovery operations is to provide public works and engineering support.

Providing Engineering Support and Technical Services

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

The Civil Works Program

The Corps operates multiple business lines to accomplish its mission. Each business line specifically addresses a single mission component, but may also contribute to one or more other business line missions. Figure 1 lists the business lines that receive direct appropriations and the funds used for executive direction and management for fiscal year (FY) 2011.

Through the American Recovery and Reinvestment Act of 2009 (ARRA), the Corps received $4.6 billion for its Civil Works program. All of the Corps' business lines, except emergency management, received ARRA funding for various programs, projects, and activities. Specific information on ARRA funding may be found at the Corps' Recovery Web site at **http://usace.army.mil/recovery**. The Corps continues to expend the ARRA funds received in FY 2009; and any ARRA funds are included in the expenditure totals in the business line performance tables.

Navigation

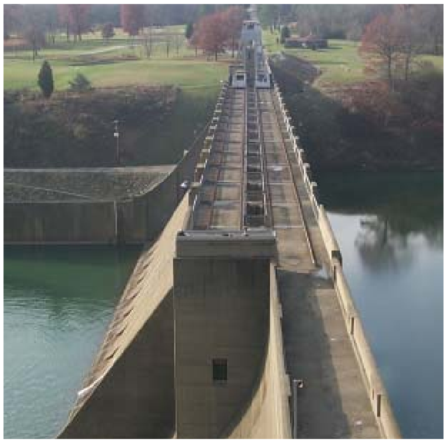
Navigation is responsible for ensuring safe, reliable, efficient, and environmentally sustainable waterborne transportation systems for the movement of commercial goods, as well as for national security needs. The business line meets this responsibility through a combination of capital improvements and the operation and maintenance of existing infrastructure projects. The navigation business line is vital to the nation's economic prosperity: 95 percent of America's overseas international trade moves through its ports. Our nation's Marine Transportation System (MTS) encompasses a network of Corps-maintained navigable channels, waterways, and infrastructure as well as publicly and privately owned vessels, marine terminals, intermodal connections, shipyards, and repair facilities. The MTS consists of approximately 12,000 miles of inland and intracoastal waterways; approximately 13,000 miles of coastal, Great Lakes, and inland harbors; channel projects; and 241 locks at 196 sites that are maintained by the Corps.

In FY 2011, navigation, estimated at $1.65 billion, accounted for 33 percent of Civil Works appropriations.

Flood Risk Management

The Flood Risk Management business line reduces the risk to human safety and property damage in the event of floods and coastal storms. The Civil Works program has constructed 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 storm damage reduction projects along 240 miles of the nation's 2,700 miles of shoreline. Upon completion, with the exception of reservoirs, most infrastructure built under the auspices of flood risk management is transferred to the sponsoring cities, towns, and special use districts that own and operate the projects.

Over the years, the Corps' mission of addressing the causes and impacts of flooding has evolved from flood control and



prevention to more comprehensive flood risk management. These changes reflect a greater appreciation for the complexity and dynamics of flood problems—the interaction of natural forces and human development—as well as for the federal, state, local, and individual partnerships needed to thoroughly manage the risks caused by coastal storms and heavy rains.

Risk management is the process of identifying, evaluating, selecting, implementing, and monitoring actions to mitigate levels of risk. Its goal is to ensure scientifically sound, cost-effective, integrated actions that reduce risks while taking into account social, cultural, environmental, ethical, political, and legal considerations. The Corps' approach to flood risk management relies on productive collaborations with partners and stakeholders; i.e., the Federal Emergency Management Agency, the Department of Housing and Urban Development, the National Oceanic and Atmospheric Administration, affected state agencies, sponsors and citizens. Effectively and efficiently, these collaborations heighten the nation's awareness of flood risks and consequences.

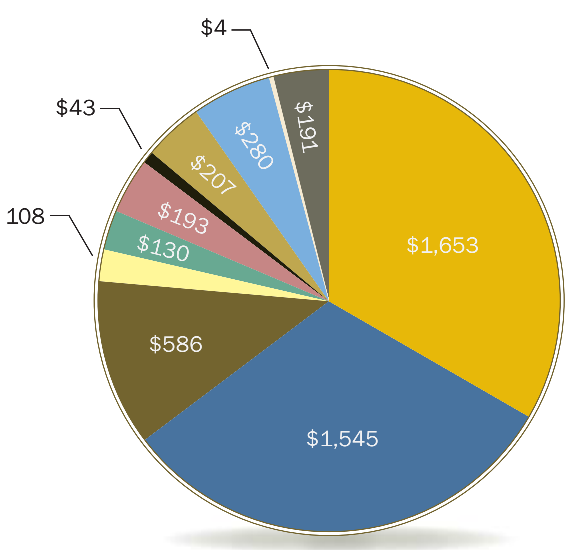
The Flood Risk Management business line has compiled an impressive record of performance, yielding a six-to-one return on investment; that is, the business line saves six dollars for each dollar spent. It has also helped reduce the risk to human safety by providing timely flood warnings that afford sufficient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

In FY 2011, the estimated $1.55 billion Flood Risk Management business line accounted for slightly more than 31 percent of Civil Works Program appropriations.

Environment

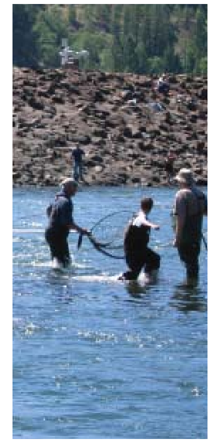
The Corps has three distinct areas that are focused on the environment: aquatic ecosystem restoration; environmental stewardship; and the Formerly Utilized Sites Remedial Action Program (FUSRAP).

Figure 1. FY 2011 Civil Works Initial Appropriations by Business Line



Business Lines

- Navigation
- Flood Risk Management
- Environment-Ecosystem Restoration
- Environment-Stewardship
- Environment-Formerly Utilized Sites Remedial Action Program (FUSRAP)
- Regulatory
- Emergency Management
- Hydropower
- Recreation
- Water Storage for Water Supply
- Executive Direction and Management



Aquatic Ecosystem Restoration. The Corps' mission in aquatic ecosystem restoration is to help restore aquatic habitat to a more natural condition in ecosystems whose structures, functions, and dynamic processes have become degraded. The emphasis is on restoration of nationally or regionally significant habitats where the solution primarily involves modifying the hydrology and geomorphology. In FY 2011, Aquatic Ecosystem Restoration received approximately $586 million, which translates to just nearly 12 percent of the total appropriation.

Environmental Stewardship. Environmental Stewardship focuses on managing, conserving, and preserving natural resources on 11.5 million acres of land and water at 456 multipurpose Corps' projects. Corps' personnel monitor water quality at Corps' dams and operate fish hatcheries in cooperation with state wildlife agencies. This business line encompasses compliance measures to ensure Corps' projects (1) meet federal, state, and local environmental requirements; (2) sustain environmental quality; and (3) conserve natural and cultural resources. In FY 2011, Environmental Stewardship received $108.0 million, an amount comprising 2.2 percent of the total appropriation.

FUSRAP. Under the FUSRAP, the Corps cleans up former Manhattan Project and Atomic Energy Commission sites, making use of expertise gained in cleansing former military sites and civilian hazardous waste sites under the Environmental Protection Agency's Superfund Program. In FY 2011, the FUSRAP received approximately $130 million, or approximately 2.6 percent of the total appropriation.

Regulation of Aquatic Resources

In accordance with the Rivers and Harbors Act of 1890 (Sec. 10) and the Clean Water Act of 1972 (Sec. 404), as amended, the Corps' regulatory program regulates work in, over, and under navigable rivers and the discharge of dredged and fill material into U.S. waters, including wetlands. The Corps implements many of its oversight responsibilities by means of a permit process. Throughout the permit evaluation process, the Corps complies with the National Environmental Policy Act and other applicable environmental and historic preservation laws. In addition to federal statutes, the Corps also considers the views of other federal, tribal, state, and local governments, agencies, and interest groups, as well as the general public when rendering its final permit decisions. Regulatory responsibilities include evaluating minor activities such as driveways for small landowners, as well as large water supply and energy project proposals which affect approximately $220.0 billion of the nation's economy.

In FY 2011, the Regulatory appropriation, at approximately $193 million, accounted for 3.9 percent of total Civil Works Program appropriations.

Emergency Management

Throughout the Corps' history, the United States has relied on the Civil Works program for help in times of national disaster. Emergency management continues to be an important part of the Civil Works program, which directly supports the Department of Homeland Security in carrying out the National Response Framework. It does this by providing emergency support in public works and engineering and by conducting emergency response and recovery activities under authority of P.L. 84-99. In a typical year, the Corps responds to more than 30 presidential disaster declarations, and its highly trained workforce is prepared to deal with both man-made and natural disasters.

The Corps not only contributes to domestic emergency management efforts, but also plays a major role on the international stage through its participation in civil-military emergency preparedness. In support of the Department of Defense, the Corps shares emergency management knowledge and expertise with U.S. allies and partners in the former Soviet Republics and Eastern Europe. This valuable program brings together key leaders and builds relationships among nations in direct support of the National Defense Strategy.

In FY 2011, Emergency Management received no funding for repairs to eligible damaged projects. The $43 million referenced in Figure 1 was for Continuity of Operations activities, non-natural disaster preparedness activities, and Facility Protection.

Hydropower

The Corps' multipurpose authorities provide hydroelectric power as an additional benefit of projects built for navigation and flood control. The Corps is the largest owner-operator of hydroelectric power plants in the United States, and one of the largest in the world. The Corps operates 350 generating units at 75 multipurpose reservoirs, mostly in the Pacific Northwest. These reservoirs account for about 24 percent of America's hydroelectric power and approximately 3 percent of the country's total electric-generating capacity. Its hydroelectric plants produce nearly 70 billion kilowatt-hours each year—sufficient to serve nearly 7 million households or roughly 11 cities the size of Seattle, Washington. Hydropower is a renewable source of energy, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect.

In FY 2011, Hydropower accounted for approximately $207 million, just under 4 percent of Civil Works Program appropriations.

Recreation

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

The Corps administers 4,488 recreation sites at 423 projects on 12 million acres of land. During FY 2011, 10 percent of the U.S. population visited a Corps' project at least once. These visitors spent $18 billion pursuing their favorite outdoor recreation activities, which, in turn, supported some 270,000 full- and part-time jobs.

In FY 2011, Recreation accounted for approximately $280 million or 5.7 percent of the Civil Works Program budget.

Water Storage for Water Supply

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

In FY 2011, this approximately $4 million business line accounted for less than one tenth of 1 percent of Civil Works Program appropriations.

Organizational Structure

The Workforce

The Corps employs approximately 37,000 people, including 650 military officers and 25,000 civilians who perform Civil Works duties. It is funded through the Energy and Water Development Appropriation and executes its missions through 8 of its 9 regional divisions and 38 of the Corps' 44 districts; the remaining districts are dedicated solely to military-related missions.

Figure 2 shows the division boundaries which are defined by watersheds and drainage basins and are reflective of the water resources nature of the Civil Works' mission. Through its Pacific Ocean and South Atlantic Divisions, the Corps also has Civil

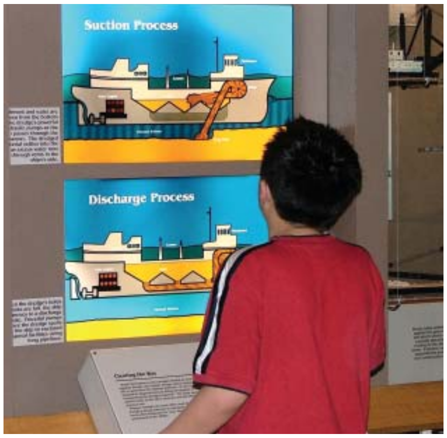
Works responsibilities in the Territory of American Samoa, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

The distribution of Civil Works employees again highlights the Civil Works program's customer focus: 95 percent of employees work at the district level (in labs or field operating agencies) and demonstrate the fact that project management, operations, and maintenance activities are performed at the local (district) level. The program contracts out all of its construction and most of its design work to civilian companies. As many as 150,000 people are indirectly employed in support of Civil Works projects, and the Corps' contractual arrangements have served the nation well in times of emergency.

The Leadership

Oversight of Civil Works Program is provided through five levels of authority. As shown in Figure 3, the Assistant Secretary of the Army for Civil Works (ASA(CW)) (a Presidential appointee) is responsible for Civil Works policy. The Chief of Engineers is a military officer who reports to the ASA(CW) and is responsible for mission accomplishment. The Chief of Engineers delegates the management of this program to the Deputy Commanding General (DCG) for Civil and Emergency Operations who further delegates management of the Civil Works program to the Director of Civil Works. Through the DCG for Civil and Emergency Operations and the Director of Civil Works, the Chief of Engineers is responsible for the leadership and management of the Civil Works program and for ensuring that policies established by the ASA(CW) are applied to all phases of the mission. Corps divisions, commanded by division engineers, are regional offices responsible for the supervision and management of subordinate districts, to include oversight and quality assurance. Districts are the foundation of the Civil Works mission which is managing water resource development over a project's life cycle.

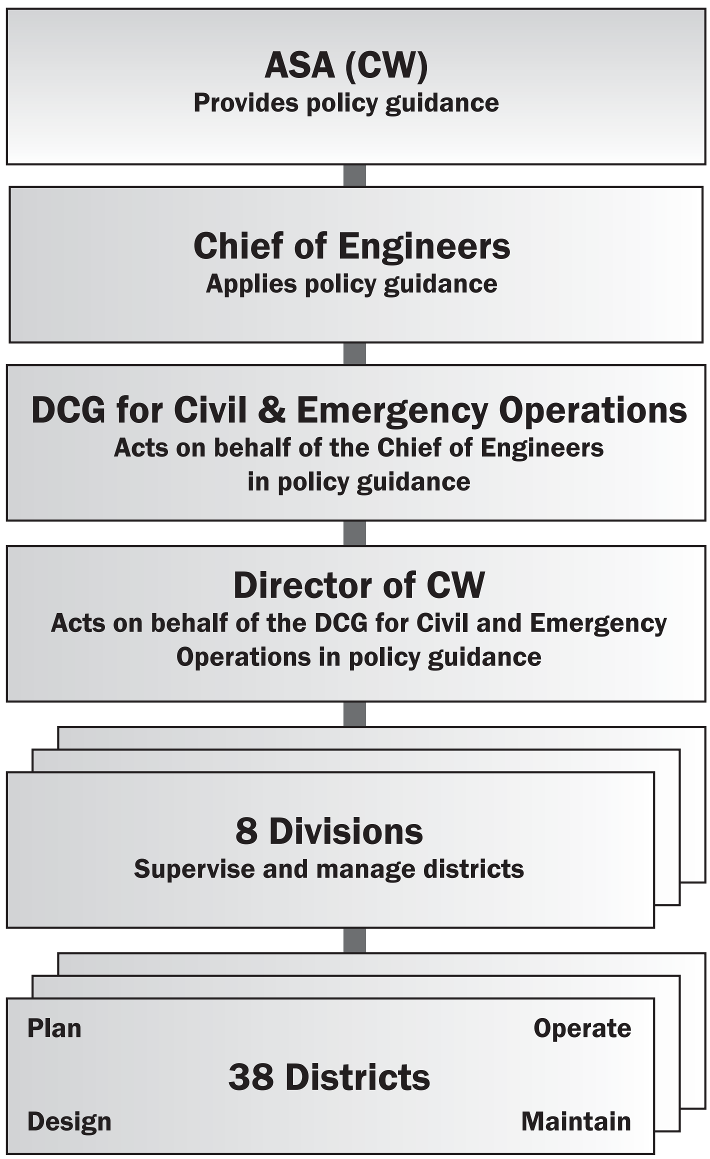
Figure 2. Civil Works Boundaries

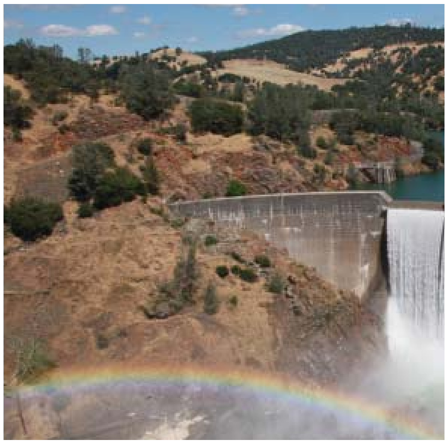
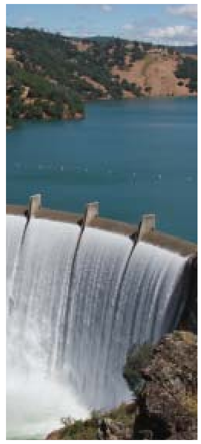
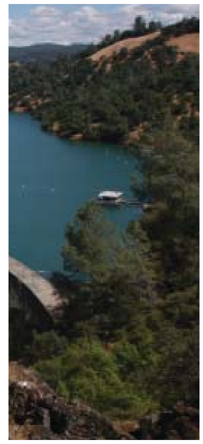


Civil Works Program Performance Results

Civil Works directly impacts America's prosperity, competitiveness, quality of life, and environmental stability. In March 2004, the Corps' leadership published a strategic plan to provide a framework for enhancing the sustainability of America's resources. The plan's strategic goals supported the Corps' strategic direction over the six-year period, FY 2004-FY 2009. In September 2011, the Office of Management and Budget (OMB) approved the new Civil Works strategic plan for FY 2011-FY 2015 which will be referenced in future years' publications. Key performance measures, developed in conjunction with and approved by the OMB, are presented below.

Figure 3. Civil Works Levels of Authority



Priority Goals

In the summer of 2009, federal agencies were asked to identify a limited number of ambitious, but realistic, high priority performance goals (HPPG) for the near term - FY 2010 and FY 2011. The USACE Civil Works Program has chosen to emphasize four goals which support the administration's broader policy priorities and have high direct value to the public. These goals are as follows:

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

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

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

Priority Goal 4 (Hydropower). Increase the Hydropower performance metric of average peak unit availability for 353 generating units from the FY 2009 level of 88 percent to 90 percent by FY 2011. This will move the Corps closer to the industry standard level, which is 98 percent. In the fall of 2010, a second metric was added: Meet or exceed the previous five-year rolling average net generation measured in megawatt hours for the Corps hydropower facilities marketed by the Southeastern, Southwestern, and Western Area Power Marketing Administration (PMAs).

The FY 2011 performance on these priority goals is discussed in the relevant business line sections.

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

Navigation

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

Funding History. The first row of Table 1 indicates the funding for FY 2011 and actual expenditures for the investigations, major rehabilitation and construction program.

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

Construction measures for the navigation system

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

- **High-return investments.** The percentage of funding to rehabilitate, construct, or expand projects that is allocated to high-return investments. High-return investment projects are defined as those with a benefit-to-cost ratio (BCR) of 3.0 or greater.
- **Percentage of reports recommending projects reflecting watershed principles.** The percentage of Chief of Engineers' reports recommending projects for authorization that meet criteria for industry-accepted

watershed principles. This measure expresses a long-term goal and assesses progress achieved in watershed-based planning.

- **Average annual benefits attributable to preconstruction engineering and design (PED) work completed in current fiscal year.** The total average annual benefits (present value) attributable to PEDs. This measure assesses the effectiveness of PED in enabling transportation savings.
- **Average annual benefits realized by construction projects completed in current fiscal year.** The total average annual benefits (present value) realized by construction projects completed. This measure assesses the effectiveness of the construction program in realizing transportation savings.

Performance Results—Construction and Investigations

Investigations funds were used at various locations throughout the nation to continue the study and design of navigation improvements such as lock replacements on the Mississippi and Ohio Rivers, Gulf Intracoastal Waterway and Illinois Waterway; and deepening of key ports such as Charleston, Savannah, Miami, and Freeport, to increase the economic benefits, reduce transportation costs, and improve reliability of navigation infrastructure.

There were several feasibility studies underway in FY 2011 but no Chief of Engineers' reports were completed for navigation projects.

Construction funding for inland waterways was used to continue (1) major rehabilitations of locks and dams, (2) dam safety assurance, (3) seepage control and static instability corrections, and (4) construction or replacement of locks and dams such as Olmsted Locks and Dam. Approximately 94 percent of the funds were programmed for high-return investments. Funding for inland waterway projects is constrained by the low

Table 1. Navigation Construction and Investigation Performance Indicators

		FY 2008	FY 2009	FY 2010	2011	
					Target	Actual
Expenditures in millions of dollars		$490	$597	$753	$325	$654
Inland Waterways	Percentage of funds to high-return investments (BCR > 3)	59%	42%	76%	80%	94%
Coastal Ports and Harbors	Percentage of reports recommending projects reflecting watershed principles	100%[1]	0%	0%[3]	Note 2	0%[3]
	Average annual benefits attributable to PEDs completed in current FY in millions of dollars	$28.1	$7.9	$0[3]	Note 2	$0[3]
	Average annual benefits realized by construction projects completed in current fiscal year in millions of dollars	$0	$8.3	$44.7	$33.0	$3.6

Note 1: Represents the completion of one report.
Note 2: Performance targets will be established beginning in FY 2012, after 3 years of data have been collected.
Note 3: No Chief of Engineers Reports or PEDs were completed in FY 2010 or FY 2011.

balance in the Inland Waterways Trust Fund (IWTF) and fuel-tax revenues collected, which fund 50 percent of the project costs for inland projects on the fuel-taxed waterways. As the Corps continues to assess the condition of the nation's dams, it must address the human safety issues that are being found. These dam safety projects are given funding priority, and together with the constrained IWTF, this necessitates the deferral or delay of many other critical projects.

Construction funding for coastal navigation projects was used for major channel deepening improvement projects such as the New York, New Jersey, and Oakland Harbors. Additional construction funding was used to construct dredged material and beneficial use placement sites, as well as to mitigate shoreline damages caused by navigation projects. Funds were also used to complete navigation improvements at Seward Small Boat Harbor, Alaska, and St Paul Harbor, Alaska, providing $3.6 million in annual benefits.

Flood Risk Management

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

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

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

Construction measures for flood risk management

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

Table 2. Construction and Investigations— Flood risk Management

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$1,107	$1,343	$2,767	$966	$2,172
Additional people protected in thousands	0	645	37	**295**	**35**
Flood damage prevented in billions of dollars	$0	$10.4	$28.0	**$13.2**	**$9.8**
Ten-year moving average in millions of dollars	$22.3	$23.1	$25.2	Note 1	
SPRA assessments completed	185	66	93	Note 2	
DSAC I dams under study or remediation	7	13	12	Note 3	
DSAC II dams with completed Issue Evaluation Studies	Note 4	2	0	Note 5	
DSAC I, II, III dams under study			28	45	75
DSAC I, II, III dams with completed studies	Note 6		2	5	5
DSAC I, II, III dams under remediation			8	8	9

Note 1: Data are collected from actual floods occurring throughout the year. 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 2: 100 percent of SPRA assessments was completed by FY 2010 and this measure is being discontinued.

Note 3: The FY 2010 number represents 100 percent of those dams identified as DSAC I as of 1 October 2010. Reduction in total to 12 is due to Mill Creek Dam reclassification to DSAC II. Therefore this measure is no longer relevant past FY 2010.

Note 4: This measure became effective in FY 2009.

Note 5: This measure has been discontinued.

Note 6: Data collection for this measure began in FY 2010.

- **Flood damage prevented.** The estimated annual dollars of property damage avoided through Corps' flood control projects completed during the fiscal year.
- **Ten-year moving average.** The 10-year moving average of actual flood-damage reduction benefits attributable to all completed Corps' flood control projects.

The following measure has been replaced with similar measures that more accurately measure progress in a specific area:

- **Screening portfolio risk assessments (SPRAs) completed.** The number of SPRAs completed in the applicable year.

The following are the new performance measures for which data were collected in FY 2010 and reporting began in FY 2011.

- **Dam Safety Action Class (DSAC) I, II, III dams under study.** The number of DSAC I, II, III projects under dam safety and seepage/stability study.
- **DSAC I, II, III dams with completed studies.** The number of DSAC I, II, III projects with complete dam safety modification reports.
- **DSAC I, II, III dams under remediation.** The number of DSAC I, II, III projects under remediation construction.

Performance Results—Construction and Investigations

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

Construction funding was used to continue construction at 8 high risk dam safety projects and to continue construction on 41 flood risk management projects in order to bring these additional benefits online. A portion of the construction funds was targeted to complete two projects. Construction on one project was completed during the 4th Quarter of FY 2011, resulting in an additional 35 thousand people with reduced risk and $9.8 million in damages prevented.

Four issue evaluation studies were completed on screened dams in FY 2011 as well as one dam safety modification report, preparing these projects to receive construction funding in FY 2012 and FY 2013.

Significant progress was made on the inventory of levees in the Corps Levee Safety Program and the establishment of the National Levee Database (NLD). To date, 14,600 miles of levees have been identified and inventoried. The Corps developed an automated Levee Inspection System tool as part of the NLD that is being used to conduct levee system inspections. Additionally, the Corps has developed a levee risk screening tool and initiated screening on federally authorized projects. The levee screening tool will provide a relative risk screening methodology that the Corps will use to provide a Levee Safety Action Classification for all levee systems in the Corps levee safety program.

In FY 2011, the Corps continued to expand the collaboration of state level intergovernmental partnerships (Silver Jackets Teams). Currently, 28 state teams have been formed and are actively working to address state flood mitigation priorities and actions that will result in coordinated intergovernmental actions to reduce flood risks and losses.

Priority Goal 2

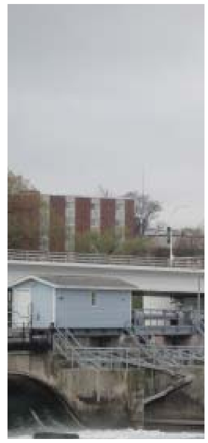
The measures, targets, and results for the Flood Risk Management HPPG are shown in bold in Table 2 above. The St. Louis Flood Protection and West Sacramento flood risk management projects were funded for completion in FY 2011; construction on the West Sacramento project was completed on schedule, allowing realization of its benefits. The St. Louis Flood Protection Project completion has been delayed until August 2012 due to historic flood conditions on the Mississippi River during the spring and summer of 2011.

Hydropower

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

Performance Indicators. The availability of hydroelectric generating units during peak power-demand periods. Indicators of successful performance in meeting this objective are measured by generating capacity and forced outage rates.

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



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

Aquatic Ecosystem Restoration

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

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

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

- **Acres of habitat restored, created, improved, or protected—annual.** The number of acres of habitat restored in degraded ecosystems.
- **Nationally significant acres of habitat restored, created, improved, or protected—annual.** The number of acres of habitat restored each year that have high quality outputs as compared to national needs.
- **Cost per acre to restore, create, improve, or protect nationally significant habitat.** The per-acre cost of projects that produce nationally significant acres in any given year. Over the long term, through efficiencies in project execution or other actions, the goal is to restore the most acres per dollar expended.
- **Number of projects or separate elements physically completed.** The actual number of projects or separate elements physically completed in the current fiscal year. Performance of the other measures is directly dependent upon this performance factor.

Performance Results

Significant progress continues to be made on restoration of the Kissimmee River, Florida, South Dade County C-111 modification; Ten Mile Creek; West Palm Beach Canal; and Indian River Lagoon South. Eight projects were completed on the Missouri River restoring shallow water habitat, emergent sandbar habitat, and backwater areas. Despite the record flooding in 2010 and 2011, three major projects were completed on the Upper Mississippi River, providing over 11,000 acres of restored habitat. Construction progressed on the restoration of Poplar Island, Maryland; Hamilton Wetlands, California; and modifications to the Chicago Sanitary and Ship Canal, which prohibits Asian carp from entering the Great Lakes from the Mississippi River. Physical construction was completed on 26 projects, resulting in 12,200 restored acres, approximately 83 percent of which are nationally significant. Progress was also made on a significant number of studies exploring ecosystem restoration options in a variety of diverse ecosystems across the country. These studies include the Louisiana Coastal Area Ecosystem Restoration Program and progress on compliance with the requirements to restore habitat required for endangered salmon in the Columbia River system. Two Chiefs Reports recommending authorization were signed. One was for the Comprehensive Everglades Restoration Plan (CERP) Caloosahatchee River (C-43) West, Florida, project and the other was for six Louisiana Coastal Area projects. The Corps contributed to the restoration of each of the five priority ecosystems that have been identified by the Administration for interagency focus.

Priority Goal 1

The measure for the Aquatic Ecosystem Restoration HPPG is shown in bold in Table 3 below. The goal calls for 10,300 acres to be restored by the end of FY 2011. This goal has been exceeded by a wide margin in part because the FY 2010 projects were completed early, the acreage figures were refined, and additional projects were completed making a significant contribution to the Aquatic Ecosystem Restoration goal to restore degraded ecosystems to more natural conditions. This is especially true for the Upper Mississippi River where the completion of three projects contributed to the restoration of over 11,700 acres. This brought the total acres restored in that program to nearly 100,000 acres since 1986.

Regulatory

Objective. To execute the Regulatory mission in a manner that protects the aquatic environment (ensures zero net loss of wetlands) while making timely, fair permit decisions.

Funding History. The first row of Table 4 displays the funding for Regulatory.

Table 3. Aquatic Ecosystem Restoration Indicators

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$429	$492	$531	$586	$496
Acres of habitat restored, created, improved, or protected (annual)	2,435	10,480	4,540	**13,000**	**12,200**
Nationally significant acres of habitat restored, created, improved, or protected (annual)	1,986	1,380	3,760	10,600	10,100
Cost per acre to restore, create, improve, or protect nationally significant habitat	$6,700	$6,600	$9,600	$8,400	$5,800
Number of projects/separable elements physically completing	Note	14	17	27	28

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

Table 4. Regulatory Indicators

	FY 2008	FY 2009	FY 2010	2011	
				Target	Actual
Expenditures in millions of dollars	$176	$190	$209	$193	$196
Percentage of compliance inspections on individual permits	22%	25%	26%	10%	27%
Percentage of compliance inspections on general permits	7%	11%	13%	5%	12%
Percentage of active mitigation sites inspected	18%	37%	10%	**5%**	**11%**
Percentage of compliance inspections on active mitigation banks	39%	44%	34%	20%	37%
Percentage of resolution on noncompliance with permit conditions or mitigation requirements	28%	38%	40%	20%	40%
Percentage of resolution on pending enforcement actions	34%	37%	38%	20%	37%
Percentage of general permit application decisions made within 60 days	82%	88%	92%	75%	91%
Percentage of standard permits and letter of permission permit decisions made within 120 days	51%	64%	67%	50%	71%

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

- **Individual permit compliance.** The percentage of all individual permits on which the Corps completed an initial compliance inspection; measures permits issued during the previous fiscal year when authorized work began.
- **General permit compliance.** The percentage of all general permits on which the Corps completed an initial compliance inspection; measures permits issued during the previous fiscal year when authorized work began.
- **Mitigation site compliance.** The percentage of field compliance inspections completed on active mitigation sites each fiscal year. Active mitigation sites are those authorized and monitored through the permit process, but which have not met final approval under the permit special conditions.
- **Mitigation inspections or audits.** The percentage of compliance inspections or audits completed on active mitigation banks and in-lieu-of-fee programs.
- **Resolution of noncompliance issues.** The percentage of noncompliance issues identified during the fiscal year in which the Corps reached resolution. This addresses noncompliance with permit conditions.
- **Resolution of enforcement actions.** The percentage of pending enforcement actions, i.e., unauthorized activities identified during the fiscal year in which the Corps reached resolution.
- **General permit decisions.** The percentage of general permit application decisions made within 60 days.
- **Individual permits.** The percentage of general individual permit application decisions made within 120 days. This standard does not include individual permits with formal Endangered Species Act consultations.

Performance Results

In FY 2011, Regulatory exceeded all performance targets. This was largely due to the additional $25 million provided as part of ARRA. Funds from the ARRA were used in support of term and temporary labor, as well as contract support. This additional labor pool and contracts afforded districts the opportunity to focus full-time staff on performance and performance-related activities, including the HPPG. Four of the eight performance indicators are post-permit, compliance–based; the target number of actions requiring compliance is based on the issuance of permits in the previous five years. This continues to result in a large number of actions requiring compliance.

Priority Goal 1

The regulatory portion of the Corps' HPPG is no net loss of aquatic resource function through avoidance and mitigation. The measure, target, and results are shown in bold in Table 4 above. Achievement of this portion of the goal is evaluated by the permittee's compliance with the permit. The target was established based on the number of permits issued requiring compensatory mitigation in the previous fiscal year.

Environmental Remediation (FUSRAP)

Objective. To achieve the cleanup objectives of FUSRAP, the Corps uses three outcome measures to indicate progress: (1) minimize risk to human health and the environment, (2) maximize the cubic yardage of contaminated material disposed in a safe and legal disposal facility, and (3) return the maximum number of affected individual properties to beneficial use.

Funding History. The first row of Table 5 displays funding for environmental remediation.

Performance Indicators. The measures listed in Table 5 serve as indicators to help Corps' personnel determine progress in meeting this objective. In addition to the indicators explained below, the Corps has begun to measure both the cumulative percentage of FUSRAP funding expended on actual cleanup activities, as well as the total cost of disposing of contaminated material.

- **Number of records of decision (ROD) signed.** As studies are completed and best alternatives for cleanup activities are decided, the number of RODs increases. A final ROD establishes the final cleanup standard which controls the actual estimate of the remaining environmental liability for each site.
- **Number of remedial investigations (RI) completed.** The RI establishes the baseline risk assessment whereby the level of risk to human health and the environment is identified.
- **Number of action memorandums signed.** When warranted by risk or other limiting factors, action memoranda allow the Corps to move toward reducing risk more rapidly than through production of a ROD. No action memoranda are presently identified.
- **Cubic yardage of contaminated material disposed.** Target-soil amounts are dependent on previous year funding and scheduled activities.
- **Individual properties returned to beneficial use.** Number of properties which are released for general use following remediation.
- **Number of remedies in place or response complete.** As select portions of sites or complete sites meet their remedial action goals, risks to human health and the environment are reduced to within acceptable levels. Properties may be used within a community without fear of increased cancer risk or further degradation of the environment.
- **Percentage of funding expended on cleanup.** The cumulative percentage of FUSRAP funding expended on cleanup activities rather than on studies. The baseline for this measure was established in FY 2004; results are reported every three years.
- **Remediation of contaminated material.** The cost to dispose of contaminated material as measured in cubic yards. Data for this measure will not be reported again until FY 2013.

Performance Results

FY 2011 funds were used to continue remedial activities at the Linde, Maywood, Shpack, St. Louis Vicinity Property, St. Louis Downtown, Iowa Army Ammunition Plant (IAAAP), Hazelwood Interim Storage Site/Latty Ave, and W.R. Grace sites. Remedial activities at the Shallow Land Disposal Area site began in August 2011. A remedial investigation scheduled to be completed at the inaccessible soils operable unit at the St. Louis Downtown site was not completed in favor of completing

Table 5. Remedial Action Indicators

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$132	$127	$166	$130	$181
Number of RODs signed	2	1	1	2	3
Remedial investigations completed	2	1	2	1	0
Action memos signed	0	0	0	0	0
Contaminated material removed in thousand cubic yards	154	143	212	119	129
Individual properties returned to beneficial use	40	61	92	108	110
Remedies in place or response complete	0	0	1	1	2
Percentage of funding expended on cleanup	84%	Note 1		85%	87%
Cost of remediation of contaminated material per cubic yard	Note 2	$496	Note 3	Note 3	

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

Note 2: Data collection on this measure began in FY 2009.

Note 3: Results for this measure will not be reported again until FY 2013.

the ROD for IAAAP. During the course of the year, it was determined that the ROD document at the IAAAP was more important to complete to avoid possible stipulated penalties by Environmental Protection Agency (EPA). Scheduled feasibility studies for operable units at the IAAAP and Dupont sites were completed. RODs were signed for the W.R. Grace site Radioactive Waste Disposal Area operable unit, the Harshaw IA-6 soils operable unit, and the IAAAP site. Approximately 129,300 cubic yards of contaminated material were removed and 18 (110 cumulative) properties were returned to beneficial use. One Remedy in Place (RIP) was scheduled at the Harshaw IA-6 operable unit. This goal was reached. The ROD for this operable unit has a "No Further Action" determination. Remedial activities at the Painesville site were completed 1 year ahead of schedule and below expected cost. Remedial investigation activities continued at all other FUSRAP sites.

The FUSRAP met or exceeded six out of seven of its FY 2011 performance indicators. The program continues to use the Monte Carlo approach to cost and schedule risk analysis. This approach continues to improve the Corps' performance and ability to repair past environmental damage.

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

Navigation

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

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

Funding History. The first row of Table 6 displays funding for the O&M portion of Navigation.

Table 6. Navigation—Operation and Maintenance Activities Performance Indicators

		FY 2008	FY 2009	FY 2010	FY 2011	
					Target	Actual
Expenditures in millions of dollars		$1,296	$1,653	$2,281	$1,342	$1,878
Inland Waterways	Segment Availability – closures over 24 hours in thousands of hours	16.0	11.1	19.6	19.0	23.1
	Total O&M funds expended per segment ton-mile (5 year rolling average)	$0.0019	$0.0021	$0.0024	$0.0021	Note 2
	Ton-miles in billions of ton – miles by fiscal year	268	222	261	Note 1	
	Efficiency – Cost per ton	$0.97	$0.83	$1.75	<$1.00	
	Preventable lock closures over 24 hours	42	37	61	**38**	**50**
	Preventable lock closures over 7 days	28	19	37	**21**	**26**
Coastal Ports and Harbors	Tons of cargo in billions of tons	2.037	1.807	1.856	Note 1	Note 2
	Channel availability, high use projects	32%	50%	38%	35%	Note 2

Note 1: The Corps does not set targets for these measures.

Note 2: Waterborne Commerce Statistics Center data for FY 2011 will not be available until late spring 2012.

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

Operation and maintenance measures for inland and intracoastal waterways

- **Ton-miles.** The sum total of movement of cargo on a specific waterway; this measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the particular inland or intracoastal waterway. Although there is no specific Corps-generated target, this indicator is used for trend analysis.
- **Segment availability.** The number of hours over 24 that mechanical-driven failure or shoaling results in the closure of all or part of a high or moderate commercial-use segment. The measure includes only failures on the main chamber of a lock (rather than an auxiliary chamber) and on shoaling due to inadequate dredging (rather than low water levels from droughts or channels closed due to floods). It also tracks closures of more than one week. The two measures that were developed for the Navigation HPPG, preventable lock closures over 24 hours and over 7 days, are proxies for this measure.
- **Total funds expended per segment ton-mile (five-year rolling average).** Total O&M funds expended per segment ton-mile averaged over a five-year period, including major rehabilitations.
- **Efficiency measure.** The O&M costs per ton of cargo shipped. It assesses the efficiency of the commercial navigation system at a particular coastal port or harbor.

Operation and maintenance measures for coastal ports and harbors, including major repairs

- **Tons of cargo.** Total sum of cargo in tons moved in and out of coastal ports and harbor systems. This measure indicates system use; data collected are for the purpose of trend analysis. No specific target is generated by the Corps.
- **Channel availability, high-use projects.** The percentage of time that high commercial traffic navigation channels are available to commercial users. There is a total of 59 high-use projects, defined as those that pass 10 million or more tons of cargo per year.

Performance Results

This business line continues to be successful in providing significant navigation benefits to the nation; however, it faces significant challenges in its efforts to maintain the reliability of the inland and intracoastal waterways and coastal navigation system. The system's aging infrastructure requires more repairs than the Corps can accomplish given the historical level of program appropriations. Over one-half of the Corps' locks have exceeded their 50-year service life and are requiring increased maintenance to keep them functioning. These same funding shortfalls, coupled with increased costs in dredging operations and construction, are affecting the Corps' ability to properly maintain its infrastructure and channels. There has been a 27 percent increase in dredging costs in recent years, which corresponds to the near doubling of fuel purchasing costs and similarly significant increases in steel and labor costs. Also, many of the new channel deepenings require additional maintenance. In addition, new environmental requirements that require the construction of new, more distant dredged material placement sites have increased the cost of dredging our channels. Although other factors may limit or control channel availability, the ability to maintain an acceptable waterway width and depth through dredging operations has, by far, the greatest impact.

Performance Results—Operation and Maintenance

The O&M appropriation and the Mississippi River and Tributaries appropriations were used to fund (1) continued operation and maintenance of 241 locks at 175 locations; and (2) maintenance dredging of critical and high commercial-use reaches of the 11,000 miles of inland and intracoastal waterways. Not all waterways were maintained at authorized dimensions. Many locks and dams received only the most critically needed maintenance and some locks, dams, and waterways were only maintained in caretaker status. The overall condition of the inland and intracoastal waterways is expected to decline, and projects will continue to experience lock closures due to mechanical breakdowns and failures.

Funding also enabled maintenance dredging of high-use, commercially important coastal ports, harbors, and channels; critical harbors of refuge; and subsistence harbors. Many moderate and low commercial-use harbors and channels were not dredged and continue to shoal, further limiting vessel drafts. For the 59 highest use coastal ports and harbors, channel conditions are expected to continue to decline due to large increases in the costs of doing business, particularly as they relate to fuel, steel, and labor. Dredging costs have increased an estimated 27 percent over the past three to four years. For these projects, authorized channel depths (for the channel's center half) were available approximately 35 percent of the time during FY 2005 – FY 2008. The condition of moderate-and low-use inland and intracoastal waterways, as well as coastal ports and harbors, is expected to continue to decline.

Additional funding from the ARRA and supplemental appropriations was used to perform additional maintenance of inland and intracoastal waterways and additional dredging and maintenance of coastal ports and harbors and to restore projects damaged by flooding to pre-storm conditions. These funds will help improve the overall condition of the inland and intracoastal waterways, help reduce lock closures due to mechanical breakdowns and failures, and help improve the conditions of high and moderate use coastal ports and harbors.

Priority Goal 3

The measures, targets, and results for the Inland Navigation HPPG are shown in bold in Table 6 above. The targets are based on the median annual number of closures over the previous five years. The instances and hours of scheduled and unscheduled lock closures due to mechanical failures have been increasing since FY 2000. The Corps anticipates these lock closures will continue to increase over the next several years and anticipates the five-year median target will increase accordingly. The Corps is prioritizing its annual funding and is completing repairs and maintenance work on locks with Recovery Act investments which will help arrest the increase in lock closures. These factors, together with anticipated higher targets in the future, will increase our ability to achieve the goal.

Flood Risk Management

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

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

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

Operation and maintenance measures for Flood Risk Management

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

Performance Results

The FY 2011 funds were used to operate and maintain federal projects and to inspect federal projects turned over to local sponsors. These resources supported coordination of federal reservoir operating schedules with private reservoirs within the basin. Projects operated in their targeted relative risk zones as represented by the indicator performance measures found in Table 7.

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

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.

Table 7. Operation and Maintenance—Flood Risk Management

		FY 2008	FY 2009	FY 2010	FY 2011	
					Target	Actual
Expenditures in millions of dollars		$678	$858	$887	$579	$855
Operations & Maintenance	Operating projects in zones 21-25 (High Risk)	96	50	80	85	33
	Operating projects in zones 1-6 (Low Risk)	49	74	85	90	136
	Marginal cost of operations	1.25%	3.70%	2.30%	2.10%	3.10%

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

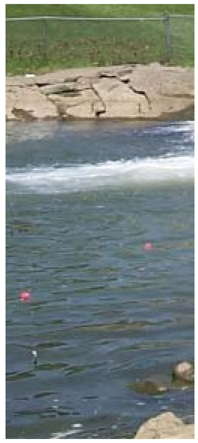
Objective. To ensure the operation of all Civil Works facilities and management of associated lands—including out-granted lands—complies with the environmental requirements of relevant federal, state, and local laws and regulations.

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

Funding History. The first row of Table 8 shows the funding for environmental stewardship.

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

- **Mitigation compliance.** A percentage of the acres of designated Corps-administered mitigation lands that meet mitigation requirements, divided by the total number of acres of designated Corps-administered mitigation lands. The measure can also be the number of pounds of fish (or the number of



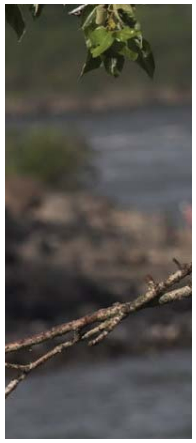
individual fish) produced in a mitigation hatchery, divided by the number of fish required to be produced at a mitigation hatchery in order to meet the mitigation requirement.

- **Endangered species protection.** The percentage of Corps operating projects with Endangered Species Act responsibilities that meets those responsibilities.
- **Cultural resources management.** The percentage of Corps operating projects that meets federally mandated cultural resource management responsibilities in relation to the number of projects with such responsibilities.
- **Healthy and sustainable lands and waters.** The number of Corps fee-owned acres classified in a sustainable condition, divided by the total number of Corps fee-owned acres. Sustainable is defined as being healthy and viable, not significantly impacted by any unmanageable factors and not requiring intensive management to maintain health. The acreage also meets operational goals and objectives established in applicable management documents.
- **Level-one natural resources inventory completion index.** A measurement of the Corps' efforts in completing basic, level-one natural resource inventories required by USACE Environmental Regulation 1130-2-540, *Environmental Stewardship Operations and Maintenance Policies*. These inventories are necessary to effect sound resource management decisions and strategy development. The percentage of acres for which level-one inventories are necessary and completed is used to evaluate the relative performance in this measure.
- **Master plan completion.** One demonstration of the Corps' commitment to fully integrate environmental stewardship in the management of operating projects. The measure is expressed as a percentage derived

Table 8. Environmental Stewardship Indicators

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars[1]	$134	$150	$212	$108	$191
Mitigation compliance	100%	100%	71%	79%	79%
Endangered species protection	100%	100%	65%	65%	64%
Cultural resource management	72%	67%	53%	55%	55%
Healthy and sustainable acreage	24%	38%	63%	50%	65%
Level-one natural resources inventory completed	46%	59%	73%	100%	80%
Master plans completed	27%	27%	28%	34%	32%
Efficiency in cents-on-the-dollar	$0.11	$0.11	$0.12	Note 1	$0.15

Note 1: In order to ensure that revenue generation is not emphasized at the expense of sustainability, the Corps does not set annual efficiency targets. This indicator is used for trend analysis.



by dividing the number of required master plans in compliance with regulation by the total number of required master plans. A master plan is completed, per regulation, to foster an efficient and cost-effective project for natural resources, cultural resources, and recreational management programs.

- **Efficiency.** A measurement of costs recovered in cents-on-the-dollar. The objective is to manage projects in an efficient manner. This measure is an assessment of federal costs avoided in relation to the business line cost. Revenue recovered each year, equivalent to the federal costs avoided, will vary due to the nature and extent of the sustainability practices implemented. The emphasis, however, is on resource sustainability as opposed to revenue generation.

Performance Results

The Environmental Stewardship business line achieved 79 percent of its performance target in mitigation and 64 percent in endangered species. Of the projects with cultural resources requirements, 55 percent were able to meet all their responsibilities and the other 45 percent were able to meet some of their responsibilities. The Corps inventoried approximately 80 percent of the lands for which it needed to complete level-one natural resources inventories. This is a 7 percent increase from FY 2010.

In FY 2011, lands and waters in healthy and sustainable condition are estimated at only 65 percent of total Corps fee-owned acres, which is relatively unchanged from FY 2010, but above the target of 50 percent. The higher results are due in part to refocusing efforts towards this performance measure and increased assessment of condition. The master plan completion rate is 32 percent for FY 2011, a slight improvement but still low due to insufficient funding coupled with the fact that complete revision of a master plan for a large project typically costs $300,000 and takes several years.

Hydropower

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

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

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

- **Percentage of time units are available to produce power.** The amount of time during a given year that hydroelectric generating units are available to the PMA interconnected system.
- **Percentage of time available during periods of peak demand.** The amount of time during daily peak demand periods that hydroelectric generating units are available to the PMA's interconnected system.
- **Percentage of forced outages.** The percentage of time generating units are in an unscheduled or unplanned outage status. The lower the forced outage rate, the more reliable and less expensive the electrical power provided to the customer.
- **Electrical reliability standards met.** The percentage of Federal Energy Regulatory Commission (FERC) and the National Electric Reliability Council-approved electric reliability standards that are met or exceeded. The FERC has no jurisdiction over the Corps' hydropower production; however, the Corps takes reliability seriously and has voluntarily chosen to comply with all applicable FERC standards, subject to the availability of resources.

The following measure was developed in late FY 2010; FY 2011 will be the first year to report data:

Net generation. Five-year rolling average net generation measured in megawatt hours for the Corps hydropower facilities which are marketed by the Southeastern Power Marketing Administration, Southwestern Power Marketing Administration, and the Western Area Power Administration. This measure does not include facilities that are directly funded for operations and maintenance, including recapitalization, by the Bonneville Power Administration.

Performance Results

Table 9 shows a decrease in FY 2011 funding for the Hydropower business line.

The length of time hydropower-generating units were actually available to produce power decreased when compared to the previous year, along with a decrease in availability during peak power demand periods. These decreases resulted in part from scheduled equipment outages for capital investments and equipment outages, resulting from aging equipment. The industry standards for availability and peak availability are 98 and 95 percent, respectively. Table 9 shows FY 2011 program performance for availability and peak availability to be approximately 13.55 and 5.75 percentage points below the industry standard, respectively. The Hydropower standard metric used for forced outages is 2 percent. Due primarily to funding constraints, the program's forced outage performance is 2.40 percentage points above the industry standard and 0.20 percentage points above the FY 2011 target.

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

Priority Goal 4

The measure for the Hydropower HPPG is shown in bold in Table 9 below; the goal is 90 percent peak availability by the end of FY 2011. Regionally, when funding has been made available for major rehabilitations, peak availability has shown improvement; however, total peak availability has decreased over the years due to problems related to aging infrastructure. Additionally, taking equipment out of service for major rehabilitations has resulted in a lowering of peak availability while the work is being accomplished. Due to the austere fiscal environment and lack of resources for major maintenance, the Corps did not meet this hydropower priority goal.

Recreation

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

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

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

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

Table 9. Hydropower Indicators

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$237	$299	$352	$207	$349
Percentage of time units are available	85.86%	86.35%	84.80%	85.00%	84.45%
Percentage of time available during periods of peak demand	86.13%	87.83%	86.82%	**90.00%**	**89.33%**
Net Generation (millions of kwH)	Note 1			**18**	**20**
Percentage of time units are out of service due to unplanned outage	5.08%	4.27%	4.29%	4.20%	4.40%
Electric reliability standards met	Note 2		85.30%	90.00%	95.30%

Note 1: This measure was added in late FY 2010; FY 2011 will be the first year to report data.

Note 2: This measure was added during FY 2007 and developed during FY 2008 and FY 2009; FY 2010 was the first year to report data.

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

- **Total National Economic Development (NED) benefits.** These[1] are benefits estimated using the unit day-value method which was originally developed by the Water Resources Council.
- **Benefit-to-cost ratio.** This is the ratio of NED benefits to actual expenditures or budget.
- **Cost recovery.** This measures the percentage of total recreation receipts to the recreation budget.
- **Park capacity.** This measures the capacity of facilities to provide recreation opportunities, expressed in millions of days/nights that recreation units were available for use.
- **Number of visitors.** This measures total number of visitors to Corps-managed parks, expressed in millions of people.
- **Visitor health and safety services.** This measures a percentage of visitors to Corps-managed recreation areas who reported acceptable service.[2] Activities that impact this measure (facility cleaning, mowing, visitor assistance, ranger patrols, park hosts, reservation services, and repairs) have been externally validated with visitors, partners, and other stakeholders.

Table 10. Recreation Indicators

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$309	$380	$557	$280	$422
Total NED benefits in millions of dollars	$1,452	$1,500	$1,610	$1,182	$1,583
Benefit-to-cost ratio	4.70	4.30	3.00	4.18	3.75
Cost recovery	16%	15%	8%	16%	11%
Park capacity in millions of days	74	74	74	74	74
Number of visitors in millions of visits	137	134	135	132	135
Visitor health and safety services	48%	48%	47%	47%	47%
Facility service	47%	47%	51%	51%	51%

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

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

- **Facility service.** The percentage of visitors served at a Corps-managed recreation area with a facility condition score of 4 or better,[3] who indicate their experience was fair to good. The quality of a visitor's experience and satisfaction with Corps' facilities is directly related to the facility condition.

Performance Results

Recreation funding in the regular Civil Works appropriation decreased again in inflation-adjusted terms from FY 2010 to FY 2011. Only 47 percent of people who visited Corps' parks were served at acceptable health and safety service levels.

Of the 2,500 Corps-managed parks, 814 parks were operated at acceptable health and safety services and 995 parks were operated at acceptable facility condition standards.

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

The Corps' Recreation Strategic Plan, implemented in April 2011, addresses the challenges of increasing demands on the Corps resources and facilities and provides direction and guidance to transform and reposition the recreation program for the future.

Water Storage for Water Supply

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

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

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

- **Acre-feet available.** Of the total acre-feet of water stored in a reservoir, this number represents the total acre-feet available for water supply.
- **Acre-feet under contract.** Of the acre-feet available for water supply, this number represents the total number of acre-feet, for present and future use, under contract with state and local interests.
- **Percentage under contract.** The percentage of the acre-feet of water supply storage space under contract compared to the acre-feet of space available for water storage.
- **Capital cost available for recovery.** The total estimated capital cost of water supply allocations. The Corps seeks proportional reimbursement of capital costs for that portion of the reservoir allocated for water supply.
- **Capital cost recovered.** Capital costs assigned to the water supply storage space that has been recovered through repayment agreements. This indicator was modified for FY 2011 to "costs actually recovered" in lieu of the previous "recovered or in the process of being recovered."
- **Percentage of capital cost recovered.** The percentage of capital cost available for recovery compared to cost recovered.
- **Administrative yearly cost per dollar collected.** This efficiency measure describes the cost to collect fees and administer agreements versus the revenues collected and returned to the U.S. Treasury.

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

Performance Results

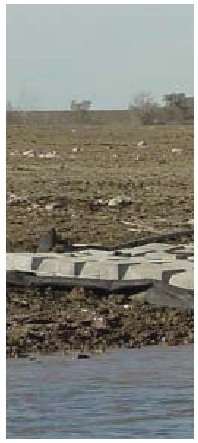
Database development for the Corps' M&I water supply projects is transforming the way the Corps collects data on its M&I contracts from periodic paper data calls to a computer database. The 2010 M&I Water Supply Database was developed and presented in the Institute for Water Resources report number 2011-R-06. This report, dated June 2011, is available at: http://www.iwr.usace.army.mil/docs/iwrreports/2011-R-06.pdf. Storage space available remains constant between FY 2010 and FY 2011 as new projects are not being developed. New storage can only come from reallocations which are seldom budgeted. The ARRA included $1.1 million to fund four water supply studies which will ultimately result in additional storage under contract and additional revenues returned to the U.S. Treasury. All studies were completed in early FY 2011.

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

Table 11. Water Storage for Water Supply

	FY 2008	FY 2009	FY 2010	FY 2011	
				Target	Actual
Expenditures in millions of dollars	$3	$7	$6	$4	**$7**
Acre-feet available in millions of acre-feet	9.2	11.1	9.7	9.8	9.7
Acre-feet under contract in millions of acre-feet	8.9	10.5	9.3	9.3	9.3
Percentage under contract	96.7%	94.6%	95.9%	94.9%	95.9%
Total capital costs available for recovery in millions of dollars	$1,285.2	$1,429.0	$1,427.9	$1,430.0	$1,428.0
Total capital costs recovered in millions of dollars	$932.2	$836.2	$803.2	$843.0	$803.0
Percentage of capital cost recovered	72.2%	56.4%	56.3%	59.0%	56.0%
Administrative yearly cost per dollar collected	$0.041	$0.044	$0.018[1]	$0.044	$0.017

Note 1: Decrease in FY 2010 and FY 2011 due to increase in revenues, which was the result of the lump sum payment of principal at two projects.



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

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

Objective. To attain and maintain a high, consistent state of preparedness.

Objective. To provide a rapid, effective, and efficient all-hazards response.

Objective. To ensure effective and efficient long-term recovery operations.

Funding History. The first row of Table 12 indicates funding for emergency preparedness and response and recovery operations.

Performance Indicators. The four primary measures, listed in Table 12, assist in determining progress toward meeting the Corps' emergency management objectives. Indicators are explained below:

- **Planning Response Team readiness.** The Corps established designated planning and response teams (PRTs) that are organized to provide rapid emergency response within a specific mission area. This measure is calculated as a percentage of time during the fiscal year that PRTs are fully staffed, trained, and ready to deploy.

- **Project inspection performance.** The Corps performs inspections of flood control works operated and maintained by public sponsors to ensure and assess their O&M condition. This measure is determined by the percentage of scheduled inspections completed during the fiscal year.

- **Damaged project restoration.** The Corps repairs flood control projects damaged by floods or storms under authority of P.L. 84-99. This measure is the percentage of projects damaged during a fiscal year and repaired prior to the next flood season.

- **Project condition ratings.** Under the Corps' rehabilitation and inspection program, inspected projects are given condition ratings characterizing their state of maintenance. This measure is the percentage of total projects inspected during the fiscal year that received a rating of at least minimally acceptable.

Performance Results

The extreme flooding and flood fight response in FY 2011 impacted many aspects of the emergency management program. Historic flood levels have been set at many locations in the Mississippi River Basin, topping many of the records set during the floods of 1927 and 1937. USACE response included the operation of Birds Point New Madrid Floodway, Bonnet Carre Spillway, Old River Control Structure and Morganza Floodway along the Mississippi River. Heavy rain and melting of historic levels of snowpack over the Missouri River Basin area raised water levels of rivers and decreased storage capacity throughout reservoirs in that region with historic flow rates comparable to 1997 and 1993 floods downstream on the Missouri River.

During FY 2011, the Corps maintained 41 national PRTs at a readiness rate of 96 percent fully manned, trained, and equipped. Teams are trained and prepared to deploy to a disaster area and provide assistance for temporary power and housing, debris management, water and ice commodities, temporary roofing, and infrastructure assessment. The readiness rating exceeded the target rating due to completed exercises and reduced turnover of the teams. The Corps provided assistance to Federal Emergency Management Agency (FEMA) for tornados in Alabama, Mississippi, Missouri, and Massachusetts; for floods in Missouri, Nebraska, North Dakota, Pennsylvania, Massachusetts, Rhode Island, and Vermont; and for wildfires in Texas.

In FY 2011, the Corps conducted 70 percent of the scheduled inspections of flood risk management projects. Performance below the target objective resulted from the focus on supporting the historic flood response. Of the total projects inspected, 89 percent received minimally acceptable or better project condition ratings.

The flooding in Mississippi and Missouri River Basins, Hurricane Irene, and Tropical Storm Lee resulted in technical or direct assistance for flood response to the states of Arkansas, Illinois, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Missouri, Montana, Oregon, Nebraska, North and South Dakota, Tennessee, Washington, Wisconsin, Wyoming, and Havasupai Tribe in Arizona.

In FY 2011, the Corps flood response provided 342 pumps, over 37 million sandbags, 5,500 rolls of poly sheeting, 275,000 linear feet (LF) of HESCO barrier, and 1,280 LF of Rapid Deployment Flood Wall as well as issuing 176 emergency contracts. As a result of the extensive spring/summer flooding, repairs are needed for over 150 projects eligible for P.L. 84-99 assistance at an estimated cost of over $600 million. Overall, the Corps achieved a 27 percent performance rating for the completion of project repairs prior to the next flood season. Severe flooding from April through September directly impacted the repair program.

Table 12. Emergency Preparedness Indicators

	FY 2008[1]	FY 2009[1]	FY 2010[1]	FY 2011	
				Target[2]	Actual[1]
Expenditures in millions of dollars	$847	$1,405	$1,515	$30	$1,857
Planning response team readiness	85%	83%	87%	85%	96%
Project inspection performance	58%	67%	77%	70%	70%
Damaged project restoration	90%	14%	61%	35%	27%
Project condition ratings	79%	79%	67%	70%	89%

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

Note 2: The funding target for FY 2011 was to fund preparedness activities.

Possible Future Effects of Existing Conditions

Flood Risk Management

As mentioned previously, the business line's goal is to reduce the nation's risk to life and damages due to flooding and coastal storms. The nation faces increasing flood hazards, putting existing developments[4] at risk. This is compounded by the fact that new development continues to occur in flood-prone areas, often behind aging flood-control structures, which include levees designed to provide agricultural rather than urban protection. National flood damages, which averaged $3.9 million annually in the 1980s, nearly doubled in the decade 1995 through 2004. Total disaster assistance for emergency response operations, and subsequent long-term recovery efforts, increased from an average of $444 million during the 1980s to $3.75 billion over the decade 1995 through 2004.

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

The Marine Transportation System (MTS)

The MTS system is comprised of 1,000 harbors and channels, 25,000 miles of inland, intracoastal and coastal waterways, and 241 lock chambers. The national MTS goal is to provide a safe, secure, and globally integrated network that, in harmony with the environment, ensures reliable movement of people and commerce along waterways, sea lanes, and intermodal connections. Today, approximately 20 percent of the gross domestic product of the United States is generated by foreign trade, and approximately 95 percent of that trade is moved by water. The value of foreign tonnage is over $900 billion and it generates 13 million jobs. Current forecasts predict that maritime trade will double in the next 20 years.

Inland Waterways. Eleven inland waterway locks are over 100 years old, and 122 are over 50 years old. In recent years, maintenance deferrals and delays in repairs and replacement of aging locks have driven up the number of unscheduled lock closures. For example, closures due to mechanical breakdowns increased from less than 9,000 hours per year in FY 2000 to more than 31,000 hours per year in FY 2011. These closures have a negative effect on the economy by imposing costs on shippers, carriers, and electric utilities. An unscheduled 52-day closure at Greenup Locks and Dams in Ohio, for example, cost shippers and carriers over $53 million. Additionally, rehabilitations and improvements to inland waterways are jeopardized by the low balance in the Inland Waterways Trust Fund because half of the cost of improvements is derived from this fund.

Coastal Channels and Harbors. Existing high-volume channels and harbors were available only 32 percent of the time in FY 2007 and FY 2008. Inadequate channels negatively affect the economy by imposing costs on vessel operators that, in turn, are reflected in the cost of imports and the price of U.S. exports. On average, failure to maintain one foot of channel depth increases container shipping costs by about six percent. Additional economic costs will accrue by postponing investment in deeper and wider channels that address projected future demand.

Environment: Aquatic Ecosystem Restoration

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

The need for aquatic ecosystem restoration is great; however, the challenge is to strike a sustainable balance between the often conflicting demands for funding and use of water resources. Climate change is likely to make this balancing act even more difficult in the future. In FY 2011, the Corps continued its research and development effort to increase the objectivity of environmental benefit assessments, improve the use of structured decision-making tools, and more effectively use ecosystem services in project formulation and evaluation. This will facilitate more consistent results, as well as the ability to effectively build and evaluate a national initiative. In the absence of a standard metric, the Corps continues to work with other agencies and invest in research and development to objectively evaluate disparate ecosystem restoration projects and prioritize restoration needs. The Corps continues to try to balance funding to address the variety of resources needed across the country.

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

Analysis of Financial Statements

USACE prepares annual Civil Works financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget. The Civil Works financial statements are subject to an independent audit to ensure that they are free from material misstatements, to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. The USACE management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

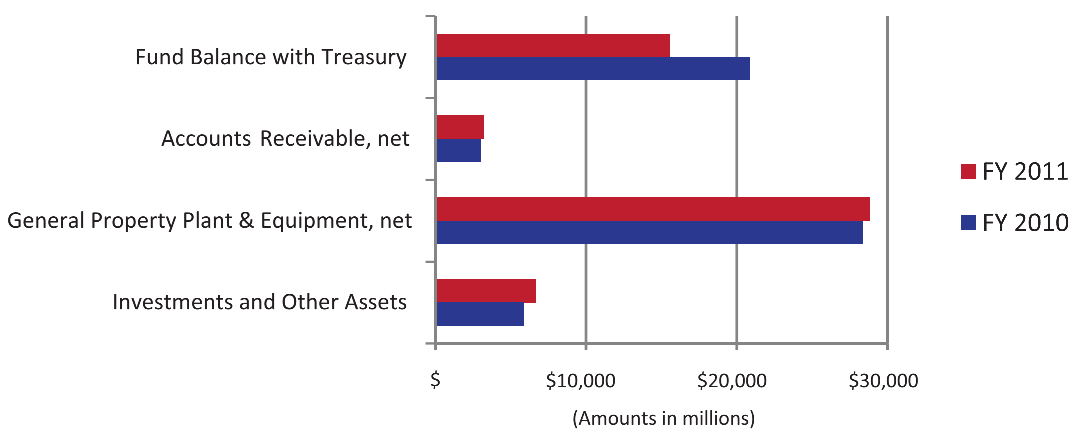
The USACE Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (beginning on page 44) have been prepared to report the financial position and results of operations of the USACE, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant "in millions" fluctuations from FY 2010 to FY 2011. The charts presented in this Analysis are "in millions" unless otherwise noted.

Balance Sheet

The Civil Works Balance Sheet presents the amounts of future economic benefits owned or managed by USACE (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 4 shows the Civil Works Assets Comparison as of September 30, 2011 and 2010. Total assets amounted to $54.2 billion in FY 2011 and $58.1 billion in FY 2010, a $3.9 billion or 6.8 percent decrease. This decrease is based on two factors. One is a decrease in Fund Balance with Treasury brought about by the liquidation of existing obligations within the Disaster Relief and Recovery Supplemental and the American Recovery and Reinvestment Act of 2009 (ARRA). This decrease is offset by an increase in Investments in Intragovernmental Securities due to increased port usage and tax revenue collections for the Harbor Maintenance Trust Fund.

Figure 4. Civil Works Assets Comparison



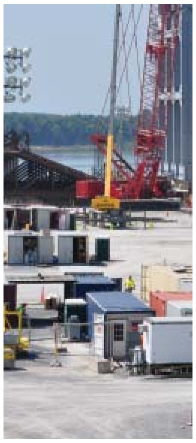
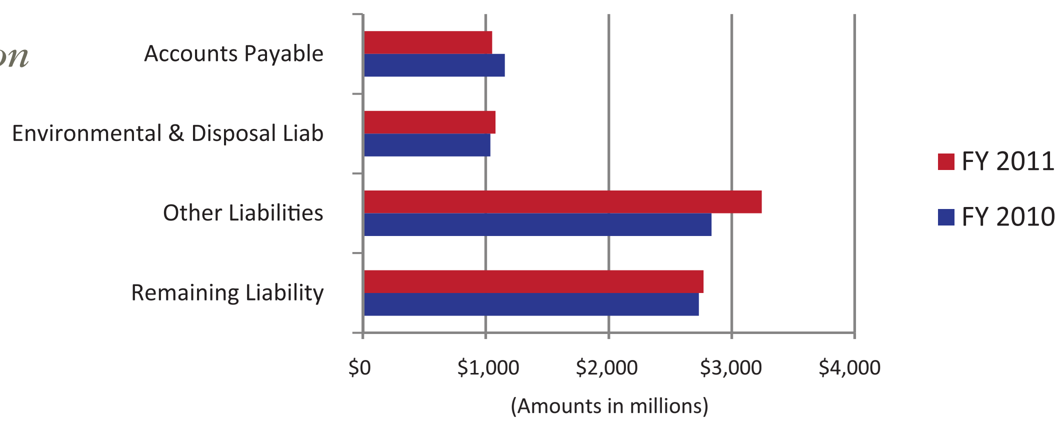


Figure 5 shows the Civil Works Liabilities Comparison as of September 30, 2011 and 2010. Total liabilities amounted to $8.1 billion in FY 2011 and $7.8 billion in FY 2010, a 3.8 percent increase, primarily due to the change in status and estimated probable loss for contingent legal liabilities.

Figure 5. Civil Works Liabilities Comparison



Statement of Net Cost

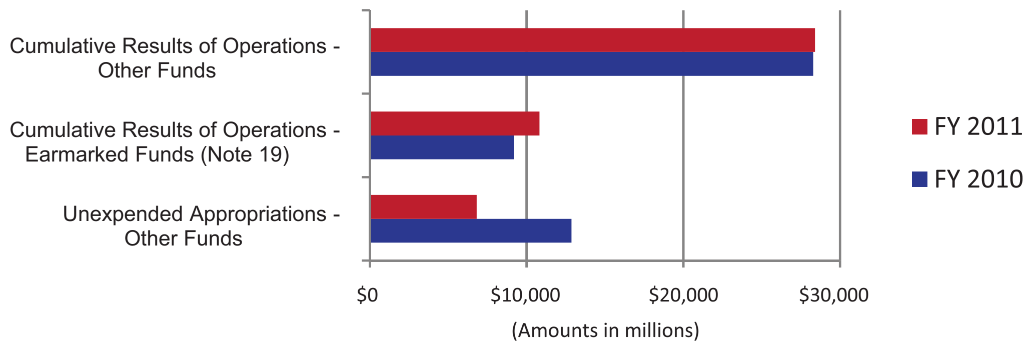
The major elements of net cost include Civil Works program costs totaling $14.3 billion in FY 2011 and $13.1 billion in FY 2010, and earned revenues amounting to $3.7 billion in FY 2011 and $3.0 billion in FY 2010. Both elements are comprised of both intragovernmental and public costs. Earned revenues increased by 23.3 percent in FY 2011 due to increased revenues from the Department of Homeland Security for various projects to include response operations to spring flood in Alabama and tornados in Missouri, and for border patrol stations, checkpoints, fencing, emergency alert systems and ports of entry.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those accounting items that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and nonexchange revenues, such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. USACE net cost of operations and appropriations used serve to reduce net position.

Figure 6 shows the three components of the Civil Works net position for FY 2011 and FY 2010. Overall, net position decreased in FY 2011 compared with FY 2010 due to a combination of decreases in Unexpended Appropriations – Other Funds, and by an increase in Cumulative Result of Operations – Earmarked Funds. The Energy and Water Appropriations were reduced in FY 2011 due to budget constraints. On the other hand, the nonexchange revenues (Trust Funds) increased due to increased port usage for imports, foreign trade and domestic transportation.

Figure 6. Civil Works Net Position Comparison

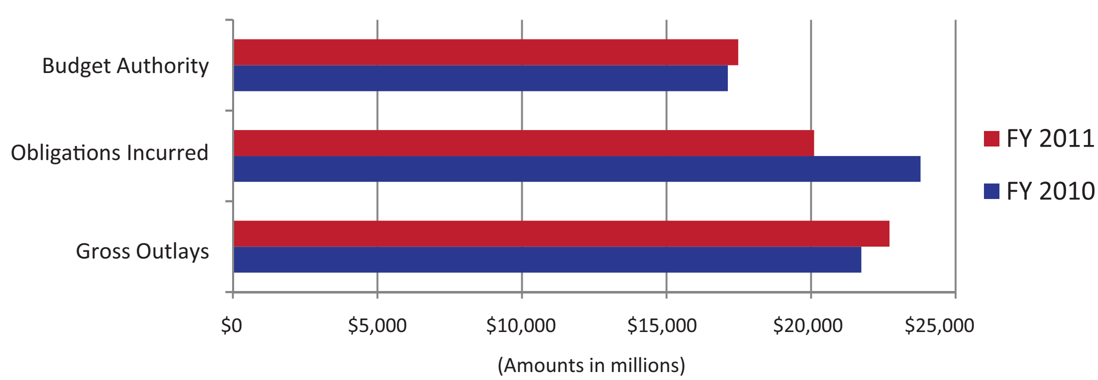


Statement of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the USACE as of September 30, 2011 and 2010, and the status of those budgetary resources. Budget authority is the authority provided to the USACE by law to enter into obligations that will result in outlays of federal funds. Obligations Incurred results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross Outlays reflects the actual cash disbursed by Treasury for USACE obligations.

Figure 7 shows a comparison of Budget Authority, Obligations Incurred and Gross Outlays in FY 2011 and FY 2010. The USACE reported total Civil Works budget authority of $17.5 billion and $17.1 billion as of September 30, 2011 and 2010, respectively. Obligations incurred amounted to $20.1 billion as of September 30, 2011 and $23.8 billion as of September 30, 2010. The decrease was due to completion of multiple projects related to the ARRA and hurricane recovery in New Orleans.

Figure 7. Civil Works Budgetary Resources Comparison



Analysis of Systems, Controls, and Legal Compliance

Federal Manager's Financial Integrity Act

The management control objectives under the *Federal Manager's Financial Integrity Act of 1982* (FMFIA) are to reasonably ensure that:

- Programs achieve their intended results efficiently and effectively.
- Resources are used consistent with overall mission.
- Programs and resources are free from waste, fraud, and mismanagement.
- All applicable laws and regulations are followed.
- Controls are sufficient to minimize any improper or erroneous payments.
- System security is in substantial compliance with all relevant requirements.
- Resources are used in accordance with the organizational mission.
- Financial management systems are in compliance with federal financial systems standards.
- Timely, accurate, and reliable data is maintained and used for decision making at all levels.

USACE internal controls program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the OMB Circulars Numbers A-123, *Management's Responsibility for Internal Control*, A-136, *Financial Reporting Requirements*, and A-127, *Financial Management Systems.* USACE holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. USACE undertakes a combination of actions to ensure there is a reasonable level of assurance that internal controls throughout USACE are in place and operating effectively. Those actions consist of a combination of inspections, audits, investigations, and management control reviews conducted throughout the year. USACE also has a strong network of management control oversight committees to include the National Management Board, Regional Management Boards, and the Quarterly Review Boards. The Quality Management System, another management control mechanism, allows USACE to

Statement of Assurance

The management of the U.S. Army Corps of Engineers (USACE) Civil Works is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). USACE Civil Works conducted its assessment of the effectiveness of internal control over operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular Number (No.) A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, USACE Civil Works can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations met the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2011.

USACE Civil Works conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Based on the results of this assessment, USACE Civil Works can provide reasonable assurance that its internal control over financial reporting as of September 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. In addition, OMB Circular No. A-127 requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the USSGL. Evaluation results also indicated that USACE Civil Works financial management systems were found to substantially comply with FFMIA and OMB Circular No. A-127 as of September 30, 2011.

Steven L. Stockton
Director of Civil Works
November 11, 2011

standardize business processes throughout the Corps and ensure appropriate internal controls are built into those processes. Many of the USACE management control evaluations are integrated into periodic management review processes such as the Consolidated Management Reviews, Directorate Management Reviews, Program Management Reviews, and through the execution of internal audits. USACE's evaluation for FY 2011 identified no material weaknesses in the design or operation of its management and financial system internal controls.

OMB Circular A-123, Appendix A

The USACE conducted an assessment of the effectiveness of its internal controls over financial reporting in compliance with OMB Circular No. A-123, Appendix A, *Internal Control over Financial Reporting* (ICOFR) and related Department of Defense (DoD) guidance. The USACE Executive Senior Assessment Team (ESAT), established in FY 2008, is chaired by the Deputy Commanding General and comprised of functional area Senior Executives who provide expert leadership and direction over the CFO Act financial statement audits. USACE evaluation for FY 2011 did not identify any material weaknesses as of or subsequent to June 30, 2011.

Federal Financial Management Improvement Act 1996

The *Federal Financial Management Improvement Act* (FFMIA) of 1996 stipulates that government agencies, "implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transactional level." FFMIA also mandates that remediation plans be developed for any agency that is unable to report substantial compliance. Substantial compliance is achieved when an agency's financial management system(s) routinely provide reliable and timely financial information for managing day to day operations as well as produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

USACE's financial management framework consists primarily of the Corps of Engineers Financial Management System (CEFMS). CEFMS is a comprehensive and integrated financial management system which processes all financial transactions for all USACE missions and programs. CEFMS maintains an electronic record of the financial transactions and is in compliance with the USSGL. USACE also utilizes CEFMS to maintain funds control and track the execution of all direct and reimbursable funded projects. Adequate internal control mechanisms are critical in maintaining the integrity of transactional data. To ensure proper separation of duties, CEFMS includes a robust electronic signature process, utilizing public key infrastructure (PKI), and has a role-based security feature to reinforce its internal controls. CEFMS provides reliable and timely financial information for managing its financial operations. Internal controls are embedded throughout CEFMS to ensure data integrity and to prevent fraud, waste, and abuse through the segregation of duties using role-based controls. CEFMS is the primary reason why USACE has received unqualified audit opinions on its Civil Works financial statements for the past four consecutive fiscal years.

USACE has evaluated its financial management systems and has determined that they substantially comply with the requirements of the FFMIA of 1996 (Section 801 of Title 31, USC, OMB Circular No. A-127, and the DoD Financial Management Regulations, Volume 1, Chapter 3.

Summary

Although USACE has no material weaknesses to report as a result of the above internal control evaluations, management is committed to address the material weakness and significant deficiencies identified in audits, evaluations and assessments of controls in its financial management systems and its business processes, to ensure existence of effective internal controls, systems integration, and timely and reliable financial and performance data for reporting purposes. Table 13 below shows the number of material weaknesses, significant deficiencies and legal requirements not in compliance, as a result of the independent audits of Civil Works financial statements from FY 2008 through FY 2011:

Table 13. Auditor Identified Control Weaknesses

Fiscal Year End	Number of Material Weaknesses	Number of Significant Deficiencies	Number of Legal Requirements Not in Compliance
2008	1	5	3
2009	5	2	6
2010	4	2	3
2011	1	3	3

Intentionally Left Blank

04

Civil Works — Principal Financial Statements, Notes, Supplementary Information, and Auditor's Report

Limitations

Limitations of the Financial Statements

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

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

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

US Army Corps of Engineers - Civil Works

CONSOLIDATED BALANCE SHEETS

As of September 30, 2011 and 2010 (Amounts in thousands)	2011	2010
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 15,532,602	$ 20,839,809
Investments (Note 4)	6,489,467	5,741,313
Accounts Receivable (Note 5)	647,913	498,100
Total Intragovernmental Assets	$ 22,669,982	$ 27,079,222
Cash and Other Monetary Assets (Note 6)	$ 1,195	$ 972
Accounts Receivable, Net (Note 5)	2,543,480	2,504,377
Operating Materials and Supplies (Note 7)	166,379	156,518
General Property, Plant and Equipment,Net (Note 8)	28,803,701	28,365,165
Other Assets	118	282
TOTAL ASSETS	$ 54,184,855	$ 58,106,536
Stewardship Property, Plant, and Equipment (Note 9)		
LIABILITIES (Note 10)		
Intragovernmental:		
Accounts Payable	$ 54,217	$ 44,287
Debt (Note 11)	5,114	5,634
Due to Treasury - General Fund (Note 13)	2,515,535	2,484,625
Other Liabilities (Notes 13 & 14)	973,217	1,026,380
Total Intragovernmental Liabilities	$ 3,548,083	$ 3,560,926
Accounts Payable - Public	$ 997,413	$ 1,110,015
Federal Employee and Veterans' Benefits	251,076	243,460
Environmental and Disposal Liabilities (Note 12)	1,078,592	1,038,122
Other Liabilities (Notes 13 & 14)	2,271,469	1,810,463
TOTAL LIABILITIES	$ 8,146,633	$ 7,762,986
Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 6,813,138	$ 12,861,828
Cumulative Results of Operations - Earmarked Funds (Note 19)	10,819,526	9,192,267
Cumulative Results of Operations - Other Funds	28,405,558	28,289,455
TOTAL NET POSITION	$ 46,038,222	$ 50,343,550
TOTAL LIABILITIES AND NET POSITION	$ 54,184,855	$ 58,106,536

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

US Army Corps of Engineers - Civil Works

CONSOLIDATED STATEMENTS OF NET COST

For the years ended September 30, 2011 and 2010 (Amounts in thousands)	2011	2010
Program Costs		
Gross Costs (Note 15)	$ 14,257,477	$ 13,085,826
(Less: Earned Revenue)	(3,671,382)	(3,014,594)
Net Cost of Operations	$ 10,586,095	$ 10,071,232

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

US Army Corps of Engineers - Civil Works

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2011 and 2010 (Amounts in thousands)	2011 Earmarked	2011 Other	2011 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 9,192,267	$ 28,289,455	$ 37,481,722
Budgetary Financing Sources:			
Appropriations used		9,971,726	9,971,726
Nonexchange revenue	1,752,440	3,747	1,756,187
Transfers-in/out without reimbursement	48,116	94,066	142,182
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	315	2,891	3,206
Transfers-in/out without reimbursement	-	113,610	113,610
Imputed financing from costs absorbed by others	2,193	340,353	342,546
Other (+/-)	(130,961)	130,961	-
Total Financing Sources	$ 1,672,103	$ 10,657,354	$ 12,329,457
Net Cost of Operations	44,844	10,541,251	10,586,095
Net Change	1,627,259	116,103	1,743,362
Cumulative Results of Operations	$ 10,819,526	$ 28,405,558	$ 39,225,084
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ -	$ 12,861,828	$ 12,861,828
Budgetary Financing Sources:	-		
Appropriations received	-	4,131,922	4,131,922
Appropriations transferred-in/out	-	(2,537)	(2,537)
Other adjustments (rescissions, etc.)	-	(206,349)	(206,349)
Appropriations used	-	(9,971,726)	(9,971,726)
Total Budgetary Financing Sources	$ -	$ (6,048,690)	$ (6,048,690)
Unexpended Appropriations	-	6,813,138	6,813,138
Net Position	$ 10,819,526	$ 35,218,696	$ 46,038,222

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

US Army Corps of Engineers - Civil Works

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2011 and 2010 (Amounts in thousands)	2010 Earmarked	2010 Other	2010 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 7,735,168	$ 26,947,643	$ 34,682,811
Budgetary Financing Sources:			
Appropriations used	-	10,233,720	10,233,720
Nonexchange revenue	1,502,034	(571)	1,501,463
Transfers-in/out without reimbursement	113,074	90,029	203,103
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	-	708	708
Transfers-in/out without reimbursement	-	595,618	595,618
Imputed financing from costs absorbed by others	625	334,906	335,531
Total Financing Sources	$ 1,615,733	$ 11,254,410	$ 12,870,143
Net Cost of Operations	158,634	9,912,598	10,071,232
Net Change	1,457,099	1,341,812	2,798,911
Cumulative Results of Operations	$ 9,192,267	$ 28,289,455	$ 37,481,722
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ -	$ 18,337,899	$ 18,337,899
Budgetary Financing Sources:			
Appropriations received	-	4,754,176	4,754,176
Appropriations transferred-in/out	-	9,000	9,000
Other adjustments (rescissions, etc.)	-	(5,527)	(5,527)
Appropriations used	-	(10,233,720)	(10,233,720)
Total Budgetary Financing Sources	$ -	$ (5,476,071)	$ (5,476,071)
Unexpended Appropriations	-	12,861,828	12,861,828
Net Position	$ 9,192,267	$ 41,151,283	$ 50,343,550

US Army Corps of Engineers - Civil Works

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the years ended September 30, 2011 and 2010 (Amounts in thousands)	2011	2010
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 11,069,152	$ 17,518,061
Recoveries of prior year unpaid obligations	117,174	40,133
Budget authority		
Appropriation	5,581,747	6,195,338
Spending authority from offsetting collections		
Earned		
Collected	11,087,237	10,201,874
Change in receivables from Federal sources	96,035	4,423
Change in unfilled customer orders		
Advance received	(104,732)	62,177
Without advance from Federal sources	(63,739)	(192,357)
Expenditure transfers from trust funds	881,890	851,019
Subtotal	$ 17,478,438	$ 17,122,474
Nonexpenditure transfers, net, actual	173,917	183,595
Permanently not available	(206,870)	(7,967)
Total Budgetary Resources	$ 28,631,811	$ 34,856,296
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 9,306,766	$ 12,924,634
Reimbursable	10,796,557	10,862,510
Subtotal	$ 20,103,323	$ 23,787,144
Unobligated balance:		
Apportioned	7,632,910	10,401,348
Exempt from apportionment	844,091	667,784
Subtotal	$ 8,477,001	$ 11,069,132
Unobligated balance not available	51,487	20
Total status of budgetary resources	$ 28,631,811	$ 34,856,296
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 13,134,605	$ 11,126,133
Less: Uncollected customer payments		
from Federal sources, brought forward, October 1	(3,065,405)	(3,253,339)
Total unpaid obligated balance	$ 10,069,200	$ 7,872,794
Obligations incurred net	20,103,323	23,787,144
Less: Gross outlays	(22,715,297)	(21,738,539)
Less: Recoveries of prior year unpaid obligations, actual	(117,174)	(40,133)
Change in uncollected customer payments from Federal sources	(32,296)	187,934
Obligated balance, net, end of period		
Unpaid obligations	10,405,457	13,134,605
Less: Uncollected customer payments from Federal sources	(3,097,701)	(3,065,405)
Total, unpaid obligated balance, net, end of period	$ 7,307,756	$ 10,069,200
Net Outlays:		
Gross outlays	$ 22,715,297	$ 21,738,539
Less: Offsetting collections	(11,864,395)	(11,115,071)
Less: Distributed Offsetting receipts	(696,399)	(708,601)
Net Outlays	$ 10,154,503	$ 9,914,867

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

Note 1. Summary of Significant Accounting Policies

1.A. Mission of the Reporting Entity

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

1.B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position and results of operations of USACE, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994. The financial statements have been prepared from the books and records of USACE in accordance with the U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirement* (October 27, 2011). The accompanying financial statements account for all Civil Works resources for which USACE is responsible.

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

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

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

1.C. Fund Types

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

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

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

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

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

Most USACE trust, contributed, and special funds are designated as earmarked funds. Earmarked funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. USACE is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for earmarked funds.

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

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

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

A summary of USACE accounts follows:

General Funds

96X3112	Flood Control, Mississippi River and Tributaries
96 3113	Mississippi River and Tributaries - Recovery Act (fiscal year)
96X3121	Investigations
96 3121	Investigations (fiscal year)
96X3122	Construction
96 3122	Construction (fiscal year)
96X3123	Operation and Maintenance, General
96 3123	Operation and Maintenance, General (fiscal year)
96X3124	General Expenses
96 3124	General Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
96 3125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96X3128	Washington Aqueduct Capital Improvements
96 3129	Payment to the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (fiscal year)
96X3130	Formerly Utilized Sites Remedial Action Program
96X3132	Office of Assistant Secretary of the Army, Civil Works
96 3132	Office of Assistant Secretary of the Army, Civil Works (fiscal year)
96 3133	Investigations – Recovery Act (fiscal year)
96 3134	Construction – Recovery Act (fiscal year)
96 3135	Operation and Maintenance – Recovery Act (fiscal year)
96 3136	Regulatory Program – Recovery Act (fiscal year)
96 3137	Formerly Utilized Sites Remedial Action Program – Recovery Act (fiscal year)
96 3138	General Expenses – Recovery Act (fiscal year)
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 (fiscal year)

Trust Funds

96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8863	Harbor Maintenance Trust Fund

Trust Funds (Contributed)

96X8862	Rivers and Harbors Contributed and Advance Funds

Deposit Funds

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

Clearing Accounts

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

Receipt Accounts

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

1.D. Financing Sources

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

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

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

USACE receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services. 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 No. A-25, *User Charges*.

USACE records two types of revenue: exchange and non-exchange. Exchange revenue is the inflow of resources that USACE has earned by providing something of value to the public or another Federal entity at a price. The main sources of exchange revenue are customer orders (reimbursable agreements) and cost sharing revenue.

Customer orders are contracts where USACE provides services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables. For non-Federal entities, an advance payment is required and USACE records advances from others. USACE reduces the advances and recognizes revenue as services are provided.

Cost sharing revenue arises from agreements under which USACE constructs assets, the cost of which will be borne in part by another entity (sponsor). Throughout the life of a cost share project, USACE revenue is earned based on the sponsor's proportionate share of project costs incurred. Sponsors are generally required to provide funds in advance and USACE records deferred credits. USACE reduces the deferred credits and recognizes revenue at the time of the withdrawal for costs incurred.

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

1.E. Recognition of Expenses

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

1.F. Accounting for Intragovernmental Activities

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

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

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

1.G. Entity and Nonentity Assets

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

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

USACE's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of 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 issued, electronic fund transfers, interagency transfers, and deposits.

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

1.I. Investments

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

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

Net investments are held by the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds.

1.J. Accounts Receivable

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

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

1.K. Operating Materials and Supplies

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

1.L. General Property, Plant and Equipment

USACE General Property, Plant, and Equipment (PP&E) is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost exceeds $25 thousand with the exception of buildings and structures related to hydropower projects which are capitalized regardless of cost.

USACE uses estimates to support the historical costs of its real property assets, including the administrative costs of land, acquired prior to FY 1999, and personal property assets acquired prior to FY 2003. The estimates are necessary because certain supporting documentation to substantiate recorded costs for those assets is no longer available. Management's estimation methods, which are consistent with the principles, relevant to USACE circumstances, as contained in SFFAS No. 6, *Accounting for Property, Plant and Equipment*; SFFAS No. 23, *Eliminating the Category National Defense Property, Plant And Equipment*; and SFFAS No.35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*; consist of using a combination of appropriation or engineering documents, or other available real estate, financial, appropriations, and operations data, combined with written management attestation statements, to estimate and support the original acquisition or construction costs recorded for each asset.

Construction in Progress (CIP) is used to accumulate the cost of construction and accumulated costs are transferred from CIP to the relevant asset category when an asset is completed.

1.M. Leases

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

1.N. Other Assets

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

1.O. Accounts Payable

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

1.P. Debt

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

1.Q. Due to Treasury – General Fund

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

1.R. Federal Employee and Veterans' Benefits

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

1.S. Other Liabilities

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

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USACE recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. USACE discloses contingent liabilities when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

Examples of loss contingencies include the collectability of receivables, pending or threatened litigation, and possible claims and assessments. USACE's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

1.T. Environmental and Disposal Liabilities

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

1.U. Liabilities Not Covered by Budgetary Resources

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

1.V. Net Position

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

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

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

1.W. Allocation Transfers

USACE is a party to allocation transfers with other Federal agencies both as a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Exceptions to this general rule affecting USACE include certain U.S. Treasury-Managed Trust Funds for whom USACE is the parent in the allocation transfer, but per OMB guidance, the child agencies will report budgetary and proprietary activity relative to these allocation transfers in their financial statements. The U.S. Treasury-Managed Trust Funds, which are included in USACE financial statements, are South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds. The U.S. Treasury, Bureau of Public Debt, on behalf of USACE, makes allocation transfers from the Harbor Maintenance Trust Fund to the Saint Lawrence Seaway Development Corporation and the U.S. Customs and Border Protection agency.

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

Note 2. Nonentity Assets

As of September 30	2011		2010	
(Amount in thousands)				
Nonentity Assets				
Intragovernmental Assets				
Fund Balance with Treasury	$	11,386	$	20,783
Total Intragovernmental Assets		11,386		20,783
Cash and Other Monetary Assets	$	1,195	$	972
Accounts Receivable		2,515,535		2,484,625
Total Nonfederal Assets	$	2,516,730	$	2,485,597
Total Nonentity Assets	$	2,528,116	$	2,506,380
Total Entity Assets		51,656,739		55,600,156
Total Assets	$	54,184,855	$	58,106,536

Other Information

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit and suspense accounts and is not available for use in operations. Deposit and suspense accounts are used to record amounts held temporarily until ownership is determined. USACE is acting as an agent or custodian for funds awaiting distribution.

Cash and Other Monetary Assets reflect the Disbursing Officer's Accountability which is comprised of change funds for recreation cashiers, disbursing officer's cash, and foreign currency. The Disbursing Officer acts as an agent for the U. S. Treasury.

Non-Federal Accounts Receivable represents all receivables from non-Federal sources where USACE does not have specific statutory authority to retain the receipts. These receivables consist of multiple types of long term agreements such as easements, sale of hydroelectric power, recreational development, and long term water storage agreements.

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

Note 3. Fund Balance with Treasury

As of September 30	2011		2010	
(Amount in thousands)				
Fund Balances				
General Funds	$	12,745,069	$	18,099,959
Revolving Funds		1,486,115		1,541,288
Trust Funds		110,517		98,615
Special Funds		75,435		70,502
Contributed Funds		1,066,755		954,923
Other Fund Types		48,711		74,522
Total Fund Balances	$	15,532,602	$	20,839,809

Status of Fund Balance with Treasury

As of September 30	2011	2010
(Amount in thousands)		
Unobligated Balance		
Available	$ 8,477,001	$ 11,069,132
Unavailable	51,487	20
Obligated Balance not yet Disbursed	10,405,456	13,134,605
Nonbudgetary FBWT	80,434	81,229
Non FBWT Budgetary Accounts	(3,481,776)	(3,445,177)
Total	$ 15,532,602	$ 20,839,809

Other Information

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds. USACE is the lead agency for reporting the financial data for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration trust funds. These trust funds remain invested and restricted for use until transferred to meet current expenditure requirements.

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

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

Non FBWT Budgetary Accounts reduces the Status of FBWT and includes borrowing authority, investment accounts, accounts receivable and unfilled orders without advance from customers.

Note 4. Investments and Related Interest

As of September 30 (Amount in thousands)	2011 Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 6,495,067	Effective Interest	$ (37,322)	$ 6,457,745	$ 6,704,814
Accrued Interest	31,722		-	31,722	31,722
Total Intragovernmental Securities	$ 6,526,789		$ (37,322)	$ 6,489,467	$ 6,736,536

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

Other Information

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to USACE as evidence of its receipts. Treasury securities are assets to USACE and liabilities to the U.S. Treasury. Because USACE and the U.S. Treasury are both Governmental entities, 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. Government-wide financial statements.

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 to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

The breakdown of total net investments among the trust funds for FY 2011 is as follows: $6.3 billion in the Harbor Maintenance Trust Fund, $42.3 million in the Inland Waterways Trust Fund, and $132.2 million in the South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund.

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

The 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, 2011 and September 30, 2010, respectively.

Note 5. Accounts Receivable, Net

As of September 30 *(Amount in thousands)*	2011 Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 647,913	$ N/A	$ 647,913
Nonfederal Receivables (From the Public)	2,544,044	(564)	2,543,480
Total Accounts Receivable	$ 3,191,957	$ (564)	$ 3,191,393

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

Other Information

As of September 30, 2011 and September 30, 2010, Accounts Receivables Intragovernmental include $421.2 million and $412.7 million, respectively, for amounts received from the Coastal Wetlands Restoration Trust Fund for projects in the New Orleans District.

As of September 30, 2011 and September 30, 2010, Accounts Receivable from the Public, net of allowances, stemming from long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements include $2.3 billion and $2.3 billion respectively. These agreements have maturity dates ranging from two to fifty years, and interest rates based on the U.S. Treasury effective rate at the time of the agreement.

Note 6. Cash and Other Monetary Assets

As of September 30	2011	2010
(Amount in thousands)		
Cash	$ 8	$ 14
Foreign Currency	1,187	958
Total Cash and Foreign Currency	$ 1,195	$ 972

Other Information

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

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

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

Note 7. Operating Materials and Supplies

As of September 30	2011	2010
(Amount in thousands)		
Operating Materials and Supplies:		
Items Held for Use	$ 166,379	$ 156,518
Totals	$ 166,379	$ 156,518

Other Information

Operating materials and supplies (OM&S) is comprised of personal property to be consumed in normal operations. The OM&S category includes materials used for constructing riverbank stabilization devices, spare and repair parts, and prepaid postage. USACE applies moving average cost flow assumptions to arrive at the historical cost of the ending OM&S and cost of goods consumed.

As of September 30, 2011 and 2010, there were no differences between the carrying amount and the net realizable value of OM&S. There are no restrictions on the use of OM&S.

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

As of September 30, 2011 and 2010, USACE does not have inventories, stockpile materials, seized or forfeited properties, or goods held under price support and stabilization programs, as defined in SFFAS No. 3, "*Accounting for Inventory and Related Property.*"

Note 8. General Property, Plant & Equipment, Net

As of September 30 (Amount in thousands)	2011				
	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 8,996,292	N/A	$ 8,996,292
Buildings, Structures, and Facilities	S/L	20 - 100	30,473,078	$ (15,544,837)	14,928,241
Leasehold Improvements	S/L	Lease term	44,547	(40,695)	3,852
Software	S/L	2 - 10	121,193	(83,563)	37,630
General Equipment	S/L	5 - 50	1,733,679	(885,802)	847,877
Construction-in- Progress	N/A	N/A	3,989,809	N/A	3,989,809
Other			354	(354)	-
Total General PP&E			$ 45,358,952	$ (16,555,251)	$ 28,803,701

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

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

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

Other Information

USACE currently operates and maintains 75 hydroelectric power plants, generating approximately 24% of America's hydroelectric power. All power generated by these hydroelectric power plants is transmitted to four Power Marketing Administrations for distribution to power companies across the United States. The service life for USACE's hydropower project related assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up $9.9 billion of the book value of USACE's PP&E in FY 2011 and $9.4 billion in FY 2010.

As of September 30, 2011, USACE recognized a loss of $22.4 million on general PP&E that had been removed from service based on SFFAS No. 6, *Accounting for Property, Plant, and Equipment,* as amended. The loss recognized as of September 30, 2010 was $21.4 million.

As of September 30, 2011 and 2010, approximately $26.3 billion of the acquisition value recorded in the PP&E line is being supported by alternate methods pursuant to the Memorandum of Agreement described in Note 1.L "General Property, Plant, and Equipment." The net book value is $11.9 billion at September 30, 2011, and $11.4 billion at September 30, 2010.

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

Note 9. Stewardship Property, Plant and Equipment (PP&E)

Information Related to Stewardship PP&E

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

Relevance to USACE Mission

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

Stewardship Policy

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

Heritage Asset Categories

1. **Buildings and Structures**. Buildings and structures are those listed on, or eligible for listing on, the National Register of Historic Places. Buildings and structures include a range of historic resources from a covered bridge in Sacramento District to early farming structures in Savannah District. They also include some non-traditional structures, such as a snag boat that operated on the Mississippi River. There are 95 buildings and structures listed on the National Register and 265 determined eligible for listing. There are a total of 360 heritage assets in this category; this reflects an addition of 69 buildings and structures from the prior fiscal year end report.

2. **Archeological Sites**. Cemeteries and archeological sites are archeological properties listed on or eligible for listing in the national Register of Historic Places. The current National Register inventory for USACE included 442 archeological properties determined to be eligible for listing and 119 archeological properties listed. This total of 561 archeological sites reflects a decrease of 115 from the prior fiscal year end report.

3. **Museum Collection Items (Objects)**. Museum collection items are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. These items are divided into two subcategories: fine art and objects. These include museum collection items that have historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance. There are a total of 201 heritage assets in this category. This reflects an addition of 6 museum collection items from the prior fiscal year end report.

Heritage Assets as of September 30, 2011	
Buildings and Structures	360
Archeological Sites	561
Museum Collection Items (objects)	201

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

Acquisition and Withdrawal of Heritage Assets

USACE removed a net of 40 heritage assets during FY 2011 from the "eligible for" listing.

Note 10. Liabilities Not Covered by Budgetary Resources

As of September 30	2011	2010
(Amount in thousands)		
Intragovernmental Liabilities		
Debt	$ 5,114	$ 5,634
Due to Treasury - General Fund	2,515,535	2,484,625
Other	236,897	227,300
Total Intragovernmental Liabilities	$ 2,757,546	$ 2,717,559
Federal Employee and Veterans' Benefits	251,076	243,460
Environmental and Disposal Liabilities	1,078,592	1,038,122
Contingent Liabilities	438,151	40,489
Total Liabilities Not Covered by Budgetary Resources	$ 4,525,365	$ 4,039,630
Total Liabilities Covered by Budgetary Resources	3,621,268	3,723,356
Total Liabilities	$ 8,146,633	$ 7,762,986

Other Information

Intragovernmental Liabilities – Debt is comprised of the amount owed by USACE to the U.S. Treasury for capital improvements to the Washington Aqueduct. Arlington County and the City of Falls Church, Virginia provide funding to USACE to repay the debt. Refer to Note 11, "Debt," for additional details and disclosures.

Intragovernmental Liabilities – Due to Treasury - General Fund includes offsetting custodial liability to accounts receivable. The custodial liability is for amounts that will be deposited in the general fund of the U.S. Treasury when collected and are primarily related to Long Term Water Storage and Louisiana coastal restoration, flood control and hurricane protection agreements. Budgetary resources are not required for these types of liabilities.

Intragovernmental Liabilities – Other includes Judgment Fund liabilities-Contract Dispute Act (CDA), and workmen's compensation liabilities under the Federal Employees Compensation Act (FECA). The FECA liability will be funded in future appropriations.

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

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

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

Note 11. Debt

As of September 30	**2011**		
(Amount in thousands)	**Beginning Balance**	**Net Borrowing**	**Ending Balance**
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 5,634	$ (520)	$ 5,114

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

Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. USACE executed three promissory notes totaling $75.0 million with the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into agreements with Arlington County and the City of Falls Church, Virginia to provide funding to USACE to repay the debt. USACE recognized a receivable for $5.1 million in principal and current interest due from Arlington County and the City of Falls Church, Virginia, as of September 30, 2011. The remaining debt balance is scheduled to be paid off in FY 2023. Actual cumulative amount of funds borrowed from the U.S. Treasury is $74.9 million of which $5.1 million is outstanding at September 30, 2011 and $5.6 million is outstanding at September 30, 2010. There were no withdrawals from the U.S. Treasury for FY 2011 or FY 2010. Total principal repayments in FY 2011 were $520.5 thousand and total principal repayments in FY 2010 were $2.4 million.

Note 12. Environmental and Disposal Liabilities

As of September 30	2011	2010
(Amount in thousands)		
Formerly Utilized Sites Remedial Action Program (FUSRAP)	$ 1,069,551	$ 1,026,985
Other	9,041	11,137
Total Environmental and Disposal Liabilities	$ 1,078,592	$ 1,038,122

Assumptions and Uncertainties

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

Based on the inherent uncertainties associated with environmental cleanup the initial cost estimate for each site is not exact and will change as more relevant data becomes available. Estimates are refined as alternative approaches are evaluated and a preferred alternative is approved in a record of decision.

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

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

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

Formerly Utilized Sites Remedial Action Program

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

Changes in the FUSRAP liability during the fiscal years ended September 30, 2011 and 2010 resulted from inflation adjustments to reflect changes in costs for the current year, cleanup activities performed, and adjustments to estimates of soil volumes.

Other Environmental Liabilities

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

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

As of September 30	2011		
(Amount in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury-General Fund	$ 281,755	$ 2,233,780	$ 2,515,535
Advances from Others	$ 705,334	$ -	$ 705,334
Deposit Funds and Suspense Account Liabilities	(154)	-	(154)
Disbursing Officer Cash	1,195	-	1,195
Judgment Fund Liabilities	186,274	-	186,274
FECA Reimbursement to the Department of Labor	21,810	28,813	50,623
Employer Contribution and Payroll Taxes Payable	29,945	-	29,945
Total Intragovernmental	$ 1,226,159	$ 2,262,593	$ 3,488,752
Accrued Funded Payroll and Benefits	$ 522,221	$ -	$ 522,221
Advances from Others	164,682	-	164,682
Deferred Credits	1,065,817	-	1,065,817
Deposit Funds and Suspense Accounts	11,386	-	11,386
Contract Holdbacks	69,212	-	69,212
Contingent Liabilities	438,151	-	438,151
Total Other Liabilities	$ 3,497,628	$ 2,262,593	$ 5,760,221

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

Other Information

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

Judgment Fund Liabilities - USACE has recognized an unfunded liability arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with a provision of the CDA requiring agencies to reimburse the Judgment Fund for payments to claimants in cases involving federal contract disputes. USACE cannot fund the CDA claims since it is funded for projects and does not receive funding for this type of claim. USACE sought supplemental appropriations for payment of CDA claims in FY 2000, FY 2006, and FY 2007, but these requests were not approved. The FY 2012 budget does not provide funding for payment of the CDA claims.

Note 14. Contingencies

Legal Contingencies

USACE is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. USACE has accrued contingent liabilities for legal actions where USACE's Office of the Chief Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury's Judgment Fund. USACE discloses amounts recognized as contingent liabilities in Note 13, Due to Treasury – General Fund and Other Liabilities.

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

Claims settled below the statutory threshold of $2,500 are paid using Civil Works appropriations; settlements above this threshold are referred to the Judgment Fund for payment. With the exception of CDA settlements disclosed in Note 13, amounts paid by the Judgment Fund are recorded as expenses and imputed financing sources.

Probable Likelihood of an Adverse Outcome

USACE is subject to potential liabilities where adverse outcomes are probable, and claims are approximately $438.2 million and $40.5 million as of September 30, 2011, and 2010, respectively. The contingent liabilities were included in Note 13. The increase in potential liabilities from 2010 to 2011 is related to the progression of legal cases and an associated change in reporting from reasonable possible to probable.

Reasonably Possible Likelihood of an Adverse Outcome

USACE is subject to potential liabilities where adverse outcomes are reasonably possible, and claims are approximately $7.9 billion and $10.4 billion as of September 30, 2011, and 2010, respectively.

Hurricane Katrina-Related Claims and Litigation

Various parties filed administrative claims and lawsuits against USACE as a result of hurricane Katrina in 2005. Most of the Katrina-related litigation is consolidated before a single federal judge sitting in the Federal District Court in New Orleans. The Court, for case management purposes, has classified the individual cases into seven categories and ordered the filing of superseding, master complaints in most categories: Levee, Mississippi River Gulf Outlet (MRGO), Insurance, Responder, Dredging Limitation, St. Rita Nursing Home, and Barge. The MRGO category, the Barge category, and Robinson, involving similar geographic areas, are most relevant to USACE at this point.

Concerning the Levee Master consolidated class action complaint, the Court granted the United States' motion to dismiss. On October 14, 2010, the Court certified this decision as a final judgment. On November 9, 2011, the U.S. Fifth Circuit Court of Appeals will hear oral argument on Plaintiff's appeal of this judgment.

The Government filed a motion to dismiss the MRGO case with regard to the application of the discretionary function exception to the activities performed at the East Bank Industrial Area (EBIA) on September 15, 2009. By Order entered February 2, 2010, the Court granted the motion dismissing EBIA allegations without prejudice, allowing for the refiling of those claims by those class representatives who had prematurely filed suit. Plaintiffs have subsequently refiled a new suit with the identical claims. The Court further allowed the consolidation of a suit by the Entergy power companies that raises these same MRGO and EBIA allegations and also specifically excepted Entergy from the MRGO stay imposed on other parties and litigation. The United States filed its motion to dismiss EBIA allegations on August 3, 2010, and an oral argument was held on October 13, 2010. On February 11, 2011, the court denied the United States' motion to dismiss the EBIA allegations. Discovery is now under way with regards to the EBIA allegations, with a three-week trial set to commence on July 23, 2012.

In the Ingram Barge case, by Order entered June 22, 2009, the Court severed and stayed the third party claims of Lafarge against the United States until 90 days after a decision is rendered by the Fifth Circuit in Robinson or until 90 days after a final resolution of Robinson by the Supreme Court in the event that a writ of certiorari is sought, or until the passage of 18 months from the Order, whichever date is sooner. This Order grants the United States' motion brought as a result of the Court's stay issued on May 4, 2009, in the MRGO category.

The DOJ, which is responsible for litigating Katrina-related matters in Federal Court on behalf of the Government, has concluded that there is a reasonable possibility that the Katrina-related administrative claims and court cases currently asserted could result in a loss to the Federal Government. The Government is unable to estimate the amount of any loss that may result; however, USACE has not recorded a provision for Katrina-related matters in the consolidated financial statements.

Other Litigation

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

Commitments and Other Contingencies

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

USACE does not have contractual arrangements which may require financial obligations, such as fixed price contracts with escalations, price redetermination, or incentive clauses, which may require future financial obligations.

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

As of September 30		**2011**		**2010**
(Amount in thousands)				
Intragovernmental Costs	$	1,681,577	$	1,579,695
Public Costs		12,575,900		11,506,131
Total Costs	$	14,257,477	$	13,085,826
Intragovernmental Earned Revenue	$	(2,976,802)	$	(2,375,350)
Public Earned Revenue		(694,580)		(639,244)
Total Earned Revenue	$	(3,671,382)	$	(3,014,594)
Net Cost of Operations	$	10,586,095	$	10,071,232

Other Information

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

The consolidated Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. The SNC represents the Civil Works Program for USACE.

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

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

Other Information

Appropriations received on the Statement of Budgetary Resources (SBR) should not and do not agree with appropriations received on the Statement of Changes in Net Position (SCNP) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference is due to additional resources of $1.5 billion during FY 2011 and $1.4 billion during FY 2010 in appropriated trust, contributed, and special fund receipts included in Appropriation on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 17, "Statement of Budgetary Resources," for additional disclosures and details.

Note 17. Disclosures Related to the Statement of Budgetary Resources

As of September 30	2011	2010
(Amount in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,689,826	$ 11,283,832

Other Information

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

For FY 2011, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: $9.3 billion for direct obligations; $10.7 billion for reimbursable obligations; and $59.8 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

For FY 2010, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: $12.9 billion for direct obligations; $10.8 billion for reimbursable obligations; and $39.0 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

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

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

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

There are differences between amounts reported on the SBR and the SF133, Report on Budget Execution (SF133) for FY 2011 and FY 2010. 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 OMB's data for budget formulation. USACE does include this appropriation in the SBR.

The President's Budget with actual figures for FY 2011 has not yet been published. The FY 2013 President's Budget will include actual figures for FY 2011 reporting. The FY 2013 President's Budget can be found at: http://www.whitehouse.gov/omb, early in FY 2012. The following chart is a reconciliation of the FY 2012 President's Budget actual figures for FY 2010 to FY 2010 Statement of Budgetary Resources as required by OMB Circular No. A-136.

U.S. Army Corps of Engineers - Civil Works
Reconciliation of FY 2010 SBR to 2012 President's Budget
(Amounts in millions)

	Budgetary Resources Line 1930	Obligations Incurred Line 0900	Offsetting Receipts Line 0299	Net Outlays Line 4190	Explanation for reconciling differences
SBR	34,856	23,787	709	9,915	
Reconciling Difference	(54)	(39)		(40)	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	(363)	(363)		(363)	Prior year adjustment related to cost share projects.
Reconciling Difference				1,071	The SBR reduces net outlays by the amount of distributed offsetting receipts. The President's Budget Line Item 4190 does not.
Reconciling Difference			(122)		General funds clearing accounts are included as distributed offsetting receipts in accordance with DFAS yearend guidance. It is not included in the President's Budget amount.
Reconciling Difference			1,377		The President's Budget line 0299 includes total receipts and collections for the trust funds. The SBR includes only USACE's distributed offsetting receipts to South Dakota Terrestrial Wildlife per Treasury Financial Manual, Federal Account Symbols and Titles (FAST Book). Other trust fund receipts are included in the budgetary resources, line 0299.
Reconciling Difference			4		Per the FAST Book, receipt account 96R 5125 is not a distributed offsetting receipt account and is not included in the SBR as a distributed offsetting receipt. It is included in the President's Budget amount.
Reconciling Difference	189	189			Reversal of prior year adjustments.
Totals	34,628	23,574	1,968	10,583	
President's Budget	34,631	23,576	1,967	10,584	
Difference	3	2	(1)	1	Due to rounding.

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

As of September 30		2011		2010
(Amount in thousands)				
Resources Used to Finance Activities:				
Budgetary Resources Obligated:				
Obligations incurred	$	20,103,323	$	23,787,144
Less: Spending authority from offsetting collections and recoveries		(12,013,865)		(10,967,269)
Obligations net of offsetting collections and recoveries	$	8,089,458	$	12,819,875
Less: Offsetting receipts		(696,399)		(708,601)
Net obligations	$	7,393,059	$	12,111,274
Other Resources:				
Donations and forfeitures of property		3,206		708
Transfers in/out without reimbursement		113,610		595,618
Imputed financing from costs absorbed by others		342,546		335,531
Net other resources used to finance activities	$	459,362	$	931,857
Total resources used to finance activities	$	7,852,421	$	13,043,131
Resources Used to Finance Items Not Part of the Net Cost of Operations:				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:				
Undelivered Orders	$	2,594,006	$	(1,802,728)
Unfilled Customer Orders		(168,471)		(130,179)
Resources that fund expenses recognized in prior periods		-		(773)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		192,332		178,791
Resources that finance the acquisition of assets		(16,324)		(59,128)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:				
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget		-		-
Other		(116,816)		(596,327)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$	2,484,727	$	(2,410,344)
Total Resources Used to Finance the Net Cost of Operations	$	10,337,148	$	10,632,787

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

As of September 30	2011	2010
(Amounts in thousands)		
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in environmental and disposal liability	$ 40,470	$ 3,330
Increase in exchange revenue receivable from the public	108,730	180,129
Other	414,875	10,037
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	$ 564,075	$ 193,496
Components not Requiring or Generating Resources:		
Depreciation and amortization	739,619	436,140
Revaluation of assets or liabilities	2,119	57,278
Other		
Cost of Goods Sold	297	371
Operating Material and Supplies Used	26	69
Cost Capitalization Offset	(1,197,685)	(1,328,535)
Other	140,496	79,626
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ (315,128)	$ (755,051)
Total components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 248,947	$ (561,555)
Net Cost of Operations	$ 10,586,095	$ 10,071,232

Other Information

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

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

Composition of Other Resources – Other, and Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations: Other – The FY 2011 and FY 2010 amounts include the net amount of assets transferred between USACE and other government agencies.

Composition of Components Requiring or Generating Resources in Future Periods: Other - The FY 2011 amounts include the current year increase to unfunded Judgment Fund Contract Disputes Act claims, Federal Employees' Compensation (FECA) liability and the

FECA actuarial liability. The FY 2010 amount includes current year Judgment Fund Contract Disputes Act claims and current year unfunded expense for the FECA liability.

Composition of Components not Requiring or Generating Resources: Other – The FY 2011 and FY 2010 amounts include bad debt expense and cost capitalization offset expense. The cost capitalization offset account provides a mechanism to offset all direct costs in the expense accounts when those costs are subsequently capitalized into an in-process account. Current year costs associated with nonfederal cost share projects in the contributed fund and costs related to the acquisition of operating materials and supplies in the revolving fund are also recorded as other expenses not requiring budgetary resources. In FY 2011 and FY 2010 costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

Note 19. Earmarked Funds

BALANCE SHEET As of September 30 *(Amounts in thousands)*	2011				
	Special Funds	Contributed Funds	Trust Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 75,435	$ 1,066,755	$ 110,517	$ -	$ 1,252,707
Investments	-	-	6,357,258	-	6,357,258
Accounts and Interest Receivable	5,509	703	436,204	(13,425)	428,991
Other Assets	1,855	37,121	714,632	-	753,608
Total Assets	$ 82,799	$ 1,104,579	$ 7,618,611	$ (13,425)	$ 8,792,564
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	$ 239	$ 1,092,494	$ 19,762	$ (13,754)	$ 1,098,741
Total Liabilities	$ 239	$ 1,092,494	$ 19,762	$ (13,754)	$ 1,098,741
Cumulative Results of Operations	82,560	12,085	7,598,849	3,126,032	10,819,526
Total Liabilities and Net Position	$ 82,799	$ 1,104,579	$ 7,618,611	$ 3,112,278	$ 11,918,267
STATEMENT OF NET COST					
Program Costs	$ 19,155	$ 387,068	$ 70,640	$ (38,751)	$ 438,112
Less Earned Revenue	-	(393,274)	-	6	(393,268)
Net Program Costs	$ 19,155	$ (6,206)	$ 70,640	$ (38,745)	$ 44,844
Net Cost of Operations	$ 19,155	$ (6,206)	$ 70,640	$ (38,745)	$ 44,844
STATEMENT OF CHANGES IN NET POSITION					
Net Position Beginning of the Period	$ 76,073	$ 12,644	$ 6,957,796	$ 2,145,754	$ 9,192,267
Net Cost of Operations	$ 19,155	(6,206)	$ 70,640	$ (38,745)	$ 44,844
Budgetary Financing Sources	25,629	$ -	848,225	926,702	1,800,556
Other Financing Sources	13	(6,765)	(136,532)	14,831	(128,453)
Change in Net Position	$ 6,487	$ (559)	$ 641,053	$ 980,278	$ 1,627,259
Net Position End of Period	$ 82,560	$ 12,085	$ 7,598,849	$ 3,126,032	$ 10,819,526

Note 19. Earmarked Funds, continued

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

Other Disclosures

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

USACE earmarked funds are presented by fund type vice individual fund due to the volume of individual earmarked funds based on SFFAS No. 27, "Identifying and Reporting Earmarked Funds."

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

USACE has the following Earmarked Funds as of September 30, 2011 and 2010:

Special Funds

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

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

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

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

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

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

Contributed Funds

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

Trust Funds

Coastal Wetlands Restoration Trust Fund. This 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. USACE is also responsible for allocating funds among the named task force members. Federal contributions are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund.

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

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

Note 20. Leases

As of September 30	**2011**							
	Asset Category							
(Amount in thousands)		**Building Space**		**Equipment**		**Other**		**Total**
ENTITY AS LESSEE								
Operating Leases								
Future Payments Due								
Fiscal Year								
2012	$	79,987	$	30	$	101	$	80,118
2013		80,294		-		28		80,322
2014		82,541		-		28		82,569
2015		84,753		-		27		84,780
2016		87,482		-		21		87,503
After 5 Years		470,468		-		46		470,514
Total Future Lease Payments Due	$	885,525	$	30	$	251	$	885,806

As of September 30, 2011, USACE has various non-cancelable operating leases mainly for office space and storage facilities maintained by many USACE Districts. Many of these leases contain clauses to reflect inflation and renewal options. USACE has no assets under capital lease.

As of September 30		**2011**
(Amount in thousands)		
ENTITY AS LESSOR		
Operating Leases		
Fiscal Year		
2012	$	6,751
2013		5,850
2014		4,838
2015		4,093
2016		3,228
After 5 Years		11,700
Total Future Lease Payments	$	36,460

USACE also has a small volume of operating leases for mostly easements.

FY 2011 Required Supplementary Stewardship Information (RSSI)

Unaudited, See Accompanying Auditor's Report

Nonfederal Physical Property
Investments in Physical Property Owned by State and Local Governments

(Amounts in millions)

Categories	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Funded Assets:					
Cost Share Projects	$2,273	$2,104	$1,198	$1,135	$1,028
Total	$2,273	$2,104	$1,198	$1,135	$1,028

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

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

Investment values included in this report are based on Nonfederal Physical Property expenditures.

FY 2011 Required Supplementary Information (RSI)

Unaudited, See Accompanying Auditor's Report

General Property, Plant and Equipment
Real Property Deferred Maintenance and Repairs
As of September 30, 2011

Deferred maintenance and repairs is defined as maintenance and repairs not performed when it should have been or was scheduled to be but delayed for a future period. Deferred maintenance and repairs for FY 2011 was $2.6 billion for Other Structures. Operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. The O&M needs are based on inspections of project features, engineering analyses and historical experience.

Heritage Asset Condition

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

US Army Corps of Engineers - Civil Works

DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND

For the year ended September 30, 2011 (Amounts in thousands)	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds
Budgetary Resources:					
Unobligated balance, brought forward, October 1	$ 12,846	$ 8,325	$ 155,451	$ 4	$ 101,725
Recoveries of prior year unpaid obligations	-	-	-	-	-
Budget authority					
Appropriation	130,000	60,269	885,489	-	-
Spending authority from offsetting collections					
Earned					
Collected	21,248	-	-	645	8,763,539
Change in receivables from Federal sources	(2,004)	-	-	-	(6,185)
Change in unfilled customer orders					
Advance received	-	-	-	-	(4,170)
Without advance from Federal sources	3,055	-	-	-	24,487
Expenditure transfers from trust funds	-	-	-	-	-
Subtotal	$ 152,299	$ 60,269	$ 885,489	$ 645	$ 8,777,671
Nonexpenditure transfers, net, actual	-	(44,813)	82,388	-	-
Temporarily not available pursuant to Public Law	-	-	-	-	-
Permanently not available	(260)	-	-	(520)	-
Total Budgetary Resources	$ 164,885	$ 23,781	$ 1,123,328	$ 129	$ 8,879,396
Status of Budgetary Resources:					
Obligations incurred:					
Direct	$ 140,434	$ 19,423	$ 935,602	$ -	$ -
Reimbursable	19,817	-	-	125	8,643,077
Subtotal	$ 160,251	$ 19,423	$ 935,602	$ 125	$ 8,643,077
Unobligated balance:					
Apportioned	4,634	4,358	187,367	-	-
Exempt from apportionment	-	-	-	4	236,319
Subtotal	$ 4,634	$ 4,358	$ 187,367	$ 4	$ 236,319
Unobligated balance not available	-	-	359	-	-
Total status of budgetary resources	$ 164,885	$ 23,781	$ 1,123,328	$ 129	$ 8,879,396
Change in Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, October 1	$ 82,162	$ 1,602	$ 296,626	$ -	$ 1,603,928
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(9,639)	-	-	-	(164,365)
Total unpaid obligated balance	$ 72,523	$ 1,602	$ 296,626	$ -	$ 1,439,563
Obligations incurred net	160,251	19,423	935,602	125	8,643,077
Less: Gross outlays	(156,531)	(19,150)	(959,752)	(125)	(8,814,543)
Less: Recoveries of prior year unpaid obligations, actual	-	-	-	-	-
Change in uncollected customer payments from Federal sources	(1,052)	-	-	-	(18,302)
Obligated balance, net, end of period					
Unpaid obligations	85,881	1,875	272,476	-	1,432,462
Less: Uncollected customer payments from Federal sources	(10,690)	-	-	-	(182,667)
Total, unpaid obligated balance, net, end of period	$ 75,191	$ 1,875	$ 272,476	$ -	$ 1,249,795
Net Outlays:					
Gross outlays	$ 156,531	$ 19,150	$ 959,752	$ 125	$ 8,814,543
Less: Offsetting collections	(21,248)	-	-	(645)	(8,759,370)
Less: Distributed Offsetting receipts	-	(58,392)	-	-	-
Net Outlays	$ 135,283	$ (39,242)	$ 959,752	$ (520)	$ 55,173

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

US Army Corps of Engineers - Civil Works

DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND

For the year ended September 30, 2011 *(Amounts in thousands)*	Contributed Funds	General Funds	FUSRAP AARA	General AARA	TOTAL
Budgetary Resources:					
Unobligated balance, brought forward, October 1	$ 504,203	$ 10,123,348	$ 332	$ 162,918	$ 11,069,152
Recoveries of prior year unpaid obligations	-	117,161	-	13	117,174
Budget authority					
Appropriation	504,067	4,001,922	-	-	5,581,747
Spending authority from offsetting collections					
Earned					
Collected	5,026	2,132,640	-	164,139	11,087,237
Change in receivables from Federal sources	-	108,604	-	(4,380)	96,035
Change in unfilled customer orders					
Advance received	(1,506)	(87,014)	-	(12,042)	(104,732)
Without advance from Federal sources	(7)	52,299	-	(143,573)	(63,739)
Expenditure transfers from trust funds	-	881,890	-	-	881,890
Subtotal	$ 507,580	$ 7,090,341	$ -	$ 4,144	$ 17,478,438
Nonexpenditure transfers, net, actual	-	136,342	-	-	173,917
Temporarily not available pursuant to Public Law	-	-	-	-	-
Permanently not available	-	(206,090)	-	-	(206,870)
Total Budgetary Resources	$ 1,011,783	$ 17,261,102	$ 332	$ 167,075	$ 28,631,811
Status of Budgetary Resources:					
Obligations incurred:					
Direct	$ 414,318	$ 7,683,403	$ 328	$ 113,258	$ 9,306,766
Reimbursable	4,576	2,127,103	-	1,859	10,796,557
Subtotal	$ 418,894	$ 9,810,506	$ 328	$ 115,117	$ 20,103,323
Unobligated balance:					
Apportioned	-	7,435,697	-	854	7,632,910
Exempt from apportionment	592,889	14,879	-	-	844,091
Subtotal	$ 592,889	$ 7,450,576	$ -	$ 854	$ 8,477,001
Unobligated balance not available	-	20	4	51,104	51,487
Total status of budgetary resources	$ 1,011,783	$ 17,261,102	$ 332	$ 167,075	$ 28,631,811
Change in Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, October 1	$ 450,731	$ 8,340,350	$ 63,230	$ 2,295,976	$ 13,134,605
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(11)	(2,664,104)	-	(227,286)	(3,065,405)
Total unpaid obligated balance	$ 450,720	$ 5,676,246	$ 63,230	$ 2,068,690	$ 10,069,200
Obligations incurred net	418,894	9,810,506	328	115,117	20,103,323
Less: Gross outlays	(395,754)	(10,781,015)	(50,191)	(1,538,236)	(22,715,297)
Less: Recoveries of prior year unpaid obligations, actual	-	(117,161)	-	(13)	(117,174)
Change in uncollected customer payments from Federal sources	7	(160,902)	-	147,953	(32,296)
Obligated balance, net, end of period					
Unpaid obligations	473,871	7,252,681	13,367	872,844	10,405,457
Less: Uncollected customer payments from Federal sources	(4)	(2,825,007)	-	(79,333)	(3,097,701)
Total, unpaid obligated balance, net, end of period	$ 473,867	$ 4,427,674	$ 13,367	$ 793,511	$ 7,307,756
Net Outlays:					
Gross outlays	$ 395,754	$ 10,781,015	$ 50,191	$ 1,538,236	$ 22,715,297
Less: Offsetting collections	(3,519)	(2,927,517)	-	(152,096)	(11,864,395)
Less: Distributed Offsetting receipts	(504,067)	(133,940)	-	-	(696,399)
Net Outlays	$ (111,832)	$ 7,719,558	$ 50,191	$ 1,386,140	$ 10,154,503

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

US Army Corps of Engineers - Civil Works

DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND

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

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

US Army Corps of Engineers - Civil Works

DISAGGREGATED SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND

For the year ended September 30, 2010 *(Amounts in thousands)*	Contributed Funds	General Funds	FUSRAP AARA	General AARA	TOTAL
Budgetary Resources:					
Unobligated balance, brought forward, October 1	$ 489,443	$ 14,075,857	$ 40,765	$ 2,438,374	$ 17,518,061
Recoveries of prior year unpaid obligations	-	40,133	-	-	40,133
Budget authority					
Appropriation	529,810	4,620,176	-	-	6,195,338
Spending authority from offsetting collections					
Earned					
Collected	1,464	1,649,252	-	122,609	10,201,874
Change in receivables from Federal sources	(2)	(6,943)	-	2,703	4,423
Change in unfilled customer orders					
Advance received	339	37,680	-	23,006	62,177
Without advance from Federal sources	(60)	(191,119)	-	2,442	(192,357)
Expenditure transfers from trust funds	-	851,019	-	-	851,019
Subtotal	$ 531,551	$ 6,960,065	$ -	$ 150,760	$ 17,122,474
Nonexpenditure transfers, net, actual	-	145,967	(500)	500	183,595
Temporarily not available pursuant to Public Law	-	-	-	-	-
Permanently not available	-	(5,527)	-	-	(7,967)
Total Budgetary Resources	$ 1,020,994	$ 21,216,495	$ 40,265	$ 2,589,634	$ 34,856,296
Status of Budgetary Resources:					
Obligations incurred:					
Direct	$ 515,833	$ 9,101,328	$ 39,933	$ 2,182,983	$ 12,924,634
Reimbursable	958	1,991,819	-	243,733	10,862,510
Subtotal	$ 516,791	$ 11,093,147	$ 39,933	$ 2,426,716	$ 23,787,144
Unobligated balance:					
Apportioned	-	10,061,476	332	162,918	10,401,348
Exempt from apportionment	504,203	61,852	-	-	667,784
Subtotal	$ 504,203	$ 10,123,328	$ 332	$ 162,918	$ 11,069,132
Unobligated balance not available	-	20	-	-	20
Total status of budgetary resources	$ 1,020,994	$ 21,216,495	$ 40,265	$ 2,589,634	$ 34,856,296
Change in Obligated Balance:					
Obligated balance, net					
Unpaid obligations, brought forward, October 1	$ 360,821	$ 6,908,462	$ 58,801	$ 1,952,354	$ 11,126,133
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(73)	(2,862,166)	-	(222,140)	(3,253,339)
Total unpaid obligated balance	$ 360,748	$ 4,046,296	$ 58,801	$ 1,730,214	$ 7,872,794
Obligations incurred net	516,791	11,093,147	39,933	2,426,716	23,787,144
Less: Gross outlays	(426,880)	(9,621,126)	(35,504)	(2,083,094)	(21,738,539)
Less: Recoveries of prior year unpaid obligations, actual	-	(40,133)	-	-	(40,133)
Change in uncollected customer payments from Federal sources	62	198,062	-	(5,145)	187,934
Obligated balance, net, end of period					
Unpaid obligations	450,731	8,340,350	63,230	2,295,976	13,134,605
Less: Uncollected customer payments from Federal sources	(11)	(2,664,104)	-	(227,286)	(3,065,405)
Total, unpaid obligated balance, net, end of period	$ 450,720	$ 5,676,246	$ 63,230	$ 2,068,690	$ 10,069,200
Net Outlays:					
Gross outlays	$ 426,880	$ 9,621,126	$ 35,504	$ 2,083,094	$ 21,738,539
Less: Offsetting collections	(1,803)	(2,537,951)	-	(145,615)	(11,115,071)
Less: Distributed Offsetting receipts	(529,810)	(122,453)	-	-	(708,601)
Net Outlays	$ (104,733)	$ 6,960,722	$ 35,504	$ 1,937,479	$ 9,914,867

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

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

November 14, 2011

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

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2011 and FY 2010 Basic Financial Statements (Report No. DODIG-2012-020)

We contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of U.S. Army Corps of Engineers, Civil Works (USACE CW), as of September 30, 2011, and for the year then ended. The contract required that KPMG LLP, conduct the audit in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008. KPMG LLP's audit resulted in an unqualified opinion. The results of KPMG LLP's audit are presented in the attached report.

KPMG LLP concluded that the financial statements were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. KPMG LLP's report also discusses one material weakness and three significant deficiencies related to USACE CW internal controls and three instances of non-compliance with laws and regulations.

We reviewed KPMG LLP's report and related documentation and discussed audit results with KPMG LLP representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on USACE CW's financial statements, conclusions about the effectiveness of internal controls, conclusions on whether USACE CW's financial management systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Patricia A. Marsh

Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment:
As stated

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Commanding General, Chief of Engineers,
U.S. Army Corps of Engineers – Civil Works; and,
Department of Defense Inspector General:

We have audited the accompanying consolidated balance sheet of the United States Army Corps of Engineers – Civil Works (USACE – Civil Works) as of September 30, 2011, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended (hereinafter referred to as "consolidated financial statements"). The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2011 audit, we also considered the USACE – Civil Works' internal control over financial reporting and tested the USACE – Civil Works' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements. The accompanying consolidated financial statements of USACE – Civil Works as of September 30, 2010, were audited by other auditors whose report thereon dated November 15, 2010, expressed an unqualified opinion on those consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the USACE – Civil Works' consolidated financial statements as of and for the year ended September 30, 2011, are presented fairly, in all material respects, in conformity with United States (U.S.) generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying a deficiency that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

Material Weakness

A. Entity-wide Internal Control

Significant Deficiencies

B. Financial Management Systems

C. Financial Reporting

D. General Property, Plant & Equipment

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number (No.) 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

E. *Federal Managers Financial Integrity Act of 1982*

F. *Federal Financial Management Improvement Act of 1996*

G. *Antideficiency Act*

The following sections discuss our opinion on the USACE – Civil Works' consolidated financial statements; our consideration of the USACE – Civil Works' internal control over financial reporting; our tests of the USACE – Civil Works' compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the USACE – Civil Works as of September 30, 2011, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year then ended. The accompanying consolidated financial statements of USACE – Civil Works as of September 30, 2010, were audited by other auditors whose report thereon dated November 15, 2010, expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USACE – Civil Works as of September 30, 2011, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion & Analysis, FY 2011 Required Supplementary Information, and FY 2011 Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2011 audit, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be significant deficiencies.

Exhibit IV presents the status of prior year significant deficiencies and material weaknesses.

We noted certain additional matters that we have reported to management of the USACE – Civil Works in a separate letter dated November 13, 2011.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described in Exhibit III.

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit III where the USACE – Civil Works' financial management systems did not substantially comply with applicable Federal accounting standards, the United States Standard General Ledger, and Federal financial management systems requirements.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to the USACE – Civil Works.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 consolidated financial statements of the USACE – Civil Works based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered the USACE – Civil Works' internal control over financial reporting by obtaining an understanding of the USACE – Civil Works' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the USACE – Civil Works' internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the USACE – Civil Works' fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of the USACE – Civil Works' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the USACE – Civil Works. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The USACE – Civil Works' responses to the findings identified in our audit are presented in Exhibits I through III. We did not audit the USACE – Civil Works' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the USACE – Civil Works' management, the U.S. Department of Defense Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 13, 2011

Exhibit I

UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS
Material Weakness
September 30, 2011

A. Entity-wide Internal Controls

There are five integrated components of integrated controls: Control Environment, Risk Assessment, Monitoring, Information and Communication, and Control Activities. Taken together, they provide management with reasonable assurance that United States Army Corps of Engineers – Civil Works (USACE – Civil Works) achieves its objectives related to effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reliability of financial reporting. During the fiscal year 2011 audit,, while USACE – Civil Works has made significant progress, we continued to find deficiencies in three of the five components of USACE - Civil Works internal controls. USACE – Civil Works has not fully implemented an appropriate organizational and internal control structure that is necessary for effective financial management and oversight. While we have noted improvements in the current year by Resource Management, weaknesses in the entity-level control structure continue to affect USACE – Civil Works financial management.

Control Environment

USACE – Civil Works has not fully implemented a financial management structure where United States (U.S.) generally accepted accounting principles (GAAP) are effectively applied, appropriate and clear internal reporting relationships have been established resulting in effective financial guidance, and policies and procedures are comprehensive and complete. More specifically, we noted the lack of adherence to accounting principles/policies as it relates to estimating environmental liabilities, applying the matching principle, lease classification, accounting for Operating Materials & Supplies (OM&S) purchases, recording internal use software (IUS) costs, and accounting for and reporting heritage assets.

Information and Communication

USACE – Civil Works has not developed and/or fully implemented adequate controls in relation to information systems and communication relevant to financial reporting.

Monitoring

USACE – Civil Works has not completely implemented entity-level monitoring controls to address previously issued audit findings in a timely manner, ensure transactions are supported by proper documentation and completed in a timely manner.

While we have noted improvements, not having fully implemented an appropriate organizational and internal control structure, the potential for misstatement in the financial statements exists.

Recommendations
We recommend USACE – Civil Works management:

1. Be more proactive in assessing compliance with U.S. GAAP by developing and implementing policies and procedures to ensure:
   - Environmental liability estimate includes appropriate adjustments (i.e., indexing, contingencies, most current available data, etc.);
   - Both revenues and expenses are recognized in the correct accounting period;

Exhibit I, continued

- Leases are properly classified;
- OM&S is reported in accordance with accounting standards;
- IUS costs are properly reported in accordance with the U.S. Standard General Ledger; and
- Districts review all projects for completeness and accuracy when reporting Heritage Assets to Headquarters.

2. Continue to prioritize the remediation of the material weakness and significant deficiencies.
3. Consider establishing a process to benchmark financial management and oversight to other agencies that have been recognized for excellence in financial management and have an established track record of unqualified opinions on their audited financial statements.

Management Response

USACE – Civil Works concurs with the findings and will take corrective action to cure the material weakness.

Exhibit II

UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS
Significant Deficiencies
September 30, 2011

B. Financial Management Systems

The United States Army Corps of Engineers – Civil Works (USACE – Civil Works) does not have adequate information technology controls to protect its financial management systems as required by Office of Management and Budget (OMB) Circular Number (No.) A-130, *Management of Federal Information Resources*. These conditions could affect USACE – Civil Works' ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. Weaknesses continue to exist in the policies and procedures governing security management, access controls, and configuration management. Specifically we identified the following weaknesses:

Security Management and Access Control Weaknesses
USACE – Civil Works management has not established formalized processes and procedures for logging onto and reviewing the operating system and database administrator activity, performing security reviews over Corps of Engineers Financial Management System (CEFMS) servers, requiring justification for granting CEFMS application system administrator access, and developing Information Technology Plans of Action and Milestones (POA&M) that comply with the *Federal Information Security Management Act* and Department of Defense guidance. By not implementing appropriate documented processes and procedures, there is an increased risk financial data could be modified inappropriately, which may have an adverse affect on the availability and integrity of financial data.

USACE – Civil Works management needs to improve controls over user access management surrounding the CEFMS operating system and database. Specifically, USACE – Civil Works has not adequately restricted user access or periodically validate user access to sensitive privileges and did not use system-generated listings to perform its monthly recertification of CEFMS operating systems accounts. This increases the risk that unauthorized changes to the CEFMS system may occur which could have adverse affects on the availability and integrity of data and the functionality of the CEFMS application.

Configuration Management Control Weaknesses
USACE – Civil Works management does not maintain sufficient evidence for operating systems patches and associated change approvals for the CEFMS production environment. Further, change documentation does not consistently include sufficient detail on the patches that were being applied to the production environment. Lack of adherence to and consistent applications of established change management procedures may adversely impact system availability and related processing of supported applications and the data integrity.

These control weaknesses have occurred because USACE – Civil Works management has not allocated resources to develop detailed security management, access control, and configuration management procedures and monitored them to ensure adherence.

Recommendations
We recommend USACE – Civil Works management improve the security management, access controls, and configuration management controls over its financial information systems to maintain security and protection of the information systems as follows:

Exhibit II, continued

1. Develop and formally document procedures for logging operating system and database activity, performing security reviews, requiring justification for CEFMS system administrators, and creating complete POA&M's that compliance with federal standards.
2. Strengthen database monitoring policies as well as enhancing existing monthly operating system recertification process.
3. Enforce existing change management procedures and periodically communicate existing infrastructure change management procedures to individuals performing the control.

Management Response
USACE – Civil Works concurs with the findings and will take corrective action to cure all significant deficiencies.

C. Financial Reporting

We noted improvements in financial reporting in accordance with United States (U.S.) generally accepted accounting principles (GAAP); however, weaknesses continue to exist.

<u>Budgetary Accounting</u>
We noted internal control deficiencies related to periodic unliquidated obligation reviews.

<u>Budgetary Reporting of a Deposit Fund</u>
We noted the inclusion of a deposit fund which created an inappropriate reconciling item between the Standard Form (SF) 133s, *Reports on Budget Execution and Budgetary Resources* and the FY 2011 USACE – Civil Works Statement of Budgetary Resources.

<u>Preparation and Related Review and Approval of Journal Vouchers</u>
We noted internal control deficiencies related to the completeness, existence, accuracy, obligations and rights and presentation of Corps of Engineers Financial Management System (CEFMS) and Department of Defense Reporting System (DDRS) Journal Vouchers. Further, USACE – Civil Works eliminated unreconciled variences by recording an "unsupported" journal voucher to reclassifying amounts to complete the financial statement preparation process.

While we have noted improvements, not fully complying with U.S. GAAP could lead to potential misstatement in the financial statement.

Recommendations
We recommend USACE – Civil Works management:

1. De-obligate invalid obligations in a timely manner (i.e., prior to fiscal year-end).
2. Investigate TAFS 96X6094 further and revise their accounting treatment of the deposit fund to be in accordance with the guidance provided under OMB Circular No. A-11.
3. Develop policies and procedures to include internal controls to identify and correct variances between federal expenses recorded in the DDRS trial balance and the trading partner activity associated with these expenses in a timely manner.

Management Response
USACE – Civil Works concurs with the findings and will take corrective action to cure all significant deficiencies.

Exhibit II, continued

D. General Property, Plant, and Equipment

Property, Plant & Equipment (PP&E) is the largest line item on the USACE – Civil Works financial statements. During our FY 2011 audit, we noted that USACE – Civil Works has made significant improvements in implementing controls and addressing deficiencies identified in the prior fiscal years over PP&E. However, continued improvements are needed to further minimize the potential that material misstatements will not be prevented or detected and corrected on a timely basis.

USACE – Civil Works did not consistently perform timely or complete management reviews and reconciliations of PP&E. For some of the reviews and reconciliations that were conducted, management did not adjust CEFMS in a timely manner for: (1) transactions management identified as those that should have been capitalized; (2) transactions that should have been expensed; and (3) transactions that should have been transferred from Construction in Progress (CIP) to completed PP&E (e.g. categorized as buildings and other structures). The errors identified related to errors originating in the current and prior years.

Communications within some Districts remain inconsistent and often do not occur timely. In many cases, resource management does not follow-up with operations personnel regarding unusual items related to PP&E. In other cases, operations personnel were aware of certain matters but did not communicate these matters to resource management and did not consider the impact to PP&E; thus, these matters were not adjusted in CEFMS. We identified issues relating to: (1) costs incorrectly included in CIP; (2) costs incorrectly included in PP&E (placed in service); (3) assets assigned an incorrect useful life; and (4) accumulated depreciation and depreciation expense incorrectly adjusted when USACE – Civil Works recorded transactions to dispose of component of an asset.

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, as amended, provides guidance for Federal entities in accounting for PP&E transactions. The Army Corps of Engineers Regulations, Engineering Regulation (ER) 37-1-30, "Financial Administration – Accounting and Reporting," contains general asset accounting policies, including accounting for PP&E. These policies include Civil Works-specific items such as accounting for cost shared projects, the Washington Aqueduct, reporting and accounting for multi-purpose projects (e.g., those that include a hydropower element), and the revolving fund.

Recommendations
We recommend that USACE – Civil Works management:

1. Ensure full implementation of controls related to PP&E (including CIP) management reviews and reconciliations;
2. Resource management and operations personnel communicate regularly to keep their asset records up to date; and,
3. Ensure implementation of CIP controls designed to prevent capitalization and misclassification errors.

Management Response
USACE – Civil Works concurs with the findings and will take corrective action to cure all significant deficiencies.

Exhibit III

UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS
Summary of Non-Compliance
September 30, 2011

E. ***Federal Managers Financial Integrity Act of 1982 (FMFIA)***

The Office of Management and Budget (OMB) Circular Number (No.) A-123 requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls.

We noted the United States Army Corps of Engineers – Civil Works (USACE – Civil Works) has not established effective systems, processes, policies and procedures to evaluate and report on internal accounting and administrative controls, and conformance of accounting systems to properly and accurately report on compliance with Sections FMFIA Sections 2 and 4.

Recommendations
We recommend USACE – Civil Works management continue to improve its' FMFIA process by developing more thorough corrective action plans, correcting system limitations, and ensuring annual assurance statements agree in both opinion and material weaknesses reported.

Management Response
USACE – Civil Works concurs with the findings and will take corrective action to cure all non-compliance items.

F. ***Federal Financial Management Improvement Act (FFMIA) of 1996***

Section 803(a) of FFMIA, requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that USACE – Civil Works did not comply with the three requirements of FFMIA. The reasons for non-compliance are reported in Exhibits I and II.

Recommendations
We recommend USACE – Civil Works management improve its processes to ensure compliance with FFMIA by updating its financial management systems to comply with accounting principles, ensuring compliance with USSGL requirements and Federal system requirements.

Management Response
USACE – Civil Works concurs with the findings and will take corrective action to cure all non-compliance items.

G. Antideficiency Act

United States Code (U.S.C.) Title 31, Subtitle II, Chapter 13, Subchapter III, Section 1517 states

Exhibit III, continued

"(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding-

(1) an apportionment; or…"

Our procedures noted an instance where FY 2011 obligations, as reported on the Reports on Budget Execution and Budgetary Resources (SF 133), exceeded the amount apportioned by OMB on the Apportionment and Reapportionment Schedule (SF-132).

Recommendations

We recommend USACE – Civil Works establish controls to obtain update SF-132s periodically during the year to be reflective of expected obligations to fulfill program needs.

Management Response

USACE – Civil Works concurs with the findings and will take corrective action to cure all non-compliance items.

Exhibit IV

UNITED STATES ARMY CORPS OF ENGINEERS - CIVIL WORKS

Status of Prior Year Findings

September 30, 2011

Title of Finding from FY10 Report	Prior Year Status	Current Year Status
General Property, Plant, and Equipment	Material Weakness	Significant Deficiency D
Controls Over Customer Agreements	Material Weakness	Corrected
Entity-wide Internal Controls	Material Weakness	Material Weakness A
Financial Reporting	Material Weakness	Significant Deficiency C
Payroll	Significant Deficiency	Corrected
Financial Management Systems	Significant Deficiency	Significant Deficiency B

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

Department of the Army

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

Office of the Financial Reporting Directorate
Room 3A312, 109 Army Pentagon
Washington, DC 20310-0109

Additional copies of this report can be obtained by sending a written request to the e-mail or mailing address listed above.

You may also view this document at:
http://www.asafm.army.mil/fo/fod/cfo/cfo.asp



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.

United States Army:

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